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KOREA

STAFF APPRAISAL REPORT

ON THE

KOREA DEVELOPMENT BANK

May 1, 1978

East Asia and Pacific Projects Department
Industrial Development and Finance Division

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CURRENCY EQUIVALENTS

US\$1.00	=	W 485
W 1	=	US\$0.0021
W 1 million	=	US\$2,062
W 1 billion	=	US\$2.06 million

ABBREVIATIONS

ADB	-	Asian Development Bank
BOK	-	Bank of Korea
CNB	-	Citizens National Bank
EPB	-	Economic Planning Board
ERR	-	Economic Rate of Return
Exim Bank	-	Export Import Bank of Japan
FRR	-	Financial Rate of Return
GNP	-	Gross National Product
GRA	-	Guarantee Release Agreement
IFC	-	International Finance Company
IFD	-	Industrial Finance Debenture
IRF	-	Industrial Rationalization Fund
KASI	-	Korea Associated Securities, Inc.
KDB	-	Korea Development Bank
KDFC	-	Korea Development Finance Company
KECO	-	Korea Electric Company
KfW	-	Kreditanstalt fur Wiederaufbau
KILC	-	Korea Industrial Leasing Company, Ltd.
MIB	-	Medium Industry Bank
NIF	-	National Investment Fund
OECF	-	Overseas Economic Development Fund, Japan
RAC	-	Readjustment Corporation
SAC	-	Shareholding Administration Committee
SAF	-	Shareholding Administration Fund
SMBC	-	Saehan Merchant Banking Corporation
TSD	-	Technical Services Department
USAID	-	United States Agency for International Development

FISCAL YEAR

January 1-December 31

KOREA
KOREA DEVELOPMENT BANK
STAFF APPRAISAL REPORT

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KOREA

KOREA DEVELOPMENT BANK

Basic Data

1. Year of establishment: 1954

2. Ownership: Government - 100%

3. Bank Group assistance:

<u>Loan No.</u>	<u>Date signed</u>	<u>Date of effective ness</u>	<u>Rate of interest</u>	(In US\$ million as of March 31, 1978)			
				<u>Amount</u>	<u>Authorized</u>	<u>Disbursed</u>	<u>Out-standing</u>
1095-K0	03/31/75	06/17/75	8.5%	60.0	60.0	59.5	59.5
1338-K0	12/23/76	03/21/77	8.7%	82.5	51.7	18.2	18.2

4. Operations

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
	----- (In billion Won) -----			
<u>Loan commitments</u>				
Domestic currency	128.9	182.1	194.5	304.8
Foreign currency	24.3	24.3	34.1	41.4
<u>Total</u>	<u>153.2</u>	<u>203.1</u>	<u>228.6</u>	<u>346.2</u>
<u>Investments</u>				
Equity and shares	10.7	69.4	40.8	63.0
Bonds & debentures	1.7	4.8	4.7	10.5
<u>Total</u>	<u>12.4</u>	<u>74.2</u>	<u>45.5</u>	<u>73.5</u>
<u>Guarantees</u>				
Domestic currency	11.1	11.1	35.7	60.8
Foreign currency	540.0	106.8	1,223.5	1,305.6
<u>Total</u>	<u>551.1</u>	<u>117.9</u>	<u>1,259.2</u>	<u>1,096.4</u>

5. Present interest rates (as of December 31, 1977) charged by KDB

	<u>% per annum</u>
a. <u>Domestic Capital Loans</u>	
Government funds	13.5
Machine industry promotion funds	
Shorter than 3 years	13
Shorter than 8 years	14
Over 8 years	15
Special equipment funds	
Shorter than 3 years	13
Shorter than 8 years	14
Internal funds (priority industries)	
Shorter than 3 years	13
Shorter than 8 years	14
Over 8 years	15
Internal funds (nonpriority industries)	
Shorter than 3 years	15
Shorter than 8 years	16
Over 8 years	17
Foreign commercial funds /a	12
b. <u>Domestic Working Capital Loans</u>	
Government funds	17
Machine industry promotion funds	13
Special equipment funds	13
Internal funds (prime clients)	15
Internal funds (other clients)	16
Foreign commercial funds /a	12
c. <u>National Investment Fund</u>	
Shorter than 3 years	13
Shorter than 8 years	14
d. <u>Tourism Development Fund</u>	4-16
e. <u>Industrial Rationalization Fund</u>	
Direct loans	
Shorter than 3 years	13
Shorter than 8 years	14
Through banking institutions	
Shorter than 3 years	11.5
Shorter than 8 years	12.5
f. <u>Government Special Fund Loans</u>	6-11.5
g. <u>Foreign Currency Loans</u>	
USAID (3rd loan)	10
KFW (4th loan)	9
ADB (5th loan)	10.75
IBRD (1st loan)	10.5
(2nd loan)	10.7
Foreign commercial funds	9
h. <u>Penalty Rate on Overdue Loans</u>	25

/a For export industries only.

6. Portfolio (in Won billion)

	<u>Domestic currency loans</u>		<u>Foreign currency loans</u>	<u>Invest- ment</u>	<u>Guarantees</u>	<u>Total</u>
	<u>Capital loans</u>	<u>Working capital loans</u>				
Outstanding as of:						
December 31, 1977	795.4	107.2	105.3	240.6	3,278.8	4,527.3

7. Financial position (amounts in Won billion)

	<u>December 31,</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977 /a</u>
Total assets		594.3	830.8	1,109.0	1,419.9
of which loan portfolio		425.7	577.8	739.9	1,007.7
of which investments		76.0	145.1	177.8	240.6
Current assets		104.4	136.5	253.6	265.3
Long-term liabilities		371.5	459.9	661.9	855.7
of which foreign currency borrowings		73.1	84.0	185.1	251.0
of which domestic IFDs		73.4	68.5	57.3	95.3
of which time deposits		41.5	35.3	21.0	18.1
Equity		158.0	253.7	336.5	365.1
Current ratio		1.6:1	1.2:1	2.0:1	1.3:1
Long-term debt/equity ratio		10.1:1	3.2:1	2.9:1	3.7:1
Total debt/equity ratio		-	3.7:1	3.6:1	4.9:1
Reserves and provisions as % of portfolio		8.7	8.2	9.1	...

/a 1977 accounts are unaudited, and on a cash basis rather than on accrual basis and therefore not fully comparable with 1974-76.

8. Financial performance (amounts in Won billion)

	1974	1975	1976	1977 <u>/a</u>
Total income	44.4	65.1	89.5	127.3
of which interest income on loans	33.0	50.6	67.2	86.2
of which dividend income	2.3	2.7	3.7	6.4
of which guarantee commission	4.8	7.3	9.1	13.0
Net income	6.4	14.1	21.1	30.4
Financial expenses	30.5	41.6	53.6	77.8
Administrative expenses	5.8	7.5	8.1	13.4
Administrative expenses as % of average total assets	1.1	1.0	0.8	1.1
Net profit as % of average total assets	1.2	2.0	2.2	2.4
Net profit as % of average net worth	2.8	6.3	7.3	8.3
Book value as % of par value	132	120	122	132

/a 1977 accounts are unaudited and are on a cash basis rather than accrual basis and therefore not fully comparable with 1974-76.

1. THE INDUSTRIAL SECTOR

Contribution to the Economy

1.01 Since the early 1960's, manufacturing has been the fastest growing sector in the Korean economy. Over the last five years, its growth reached nearly 20% p.a., almost twice as fast as the 11.5% growth of aggregate GNP. The industrial sector, which accounted for 12% of GNP in 1961, reached 30% in 1977. Manufacturing contributed 43% of the increment in GNP over the last decade rising to 52% during the past five years. Manufactured products represented 89% of commodity exports in 1977, compared with 82% in 1965 and 60% in 1960. Industry has provided about one third of all jobs created since 1963 and as much as 47% over the period 1971-75; with approximately 2.9 million people employed, the industrial sector accounted for 21% of the total population employed in 1977 against 11% in 1966. One notable feature of Korea's rapid industrialization is that it has substantially contributed to the improvement in the country's income distribution which is now among the most equitable in the developing world.

1.02 Manufactured exports have been the principal engine of growth of the Korean economy and the beneficial impact of the orientation towards labor-intensive exports can be seen in the factor proportions and efficiency of factor use in Korean manufacturing. The sector is typified by low capital/output and capital/labor ratios and high rates of growth of productivity. The unlagged incremental capital/output ratio in the manufacturing sector was 1.3 (in 1970 prices) during 1965-76 and there has been no perceptible increase in the ratio during the last five years despite the increased relative importance of steel, petrochemicals, shipbuilding and machinery industries. This reflects not only the pattern of industry with heavy emphasis on labor intensive goods but also low construction costs and high rates of utilization of capacity reflecting in turn good management and organization. After falling between 1960 and 1966, the average cost of job creation in manufacturing industry during the last decade has been stable at about \$5,000 in 1975 prices reflecting both changes in output mix and productivity improvement within existing industries. The high and sharply increasing level of labor productivity has been a fundamental strength of the Korean development process. Real wages costs still appear quite competitive internationally. Manufacturing wage rates in Korea are about one-fifth of those in Japan, lower than in Taiwan, Hong Kong and Singapore and higher than in the Philippines, Malaysia and Thailand. In contrast, productivity levels compare very favorably with the latter countries and are probably not too far behind that of Japan in the traditional industries. The explanation of this lies in the high levels of education and skills and strict labor discipline. The efficient use of capital and the steady improvement in labor productivity have enabled the Korean economy to maintain a GNP growth rate of nearly 11% p.a. during the last decade while investing only about 26% of GNP on average.

1.03 Recent Performance. The Korean economy recovered remarkably well in 1976 and 1977 after the recessionary period of 1974-75. The performance of the manufacturing sector was particularly impressive with a 26% real growth of value added in 1976,^{/1} and 12% in 1977. Exports increased by

^{/1} Compared to 13% in 1975.

more than 40% in volume in 1976 and by about 32% in 1977, reaching US\$10.0 billion, led by a strong demand for Korea's traditional export products such as textile yarns, fabrics and clothing which maintained a share of about 35% of total commodity exports. Korea's efforts at reducing the concentration of its exports towards the US and Japan have met with considerable success in recent years; in 1977 the combined share of the US and Japan dropped to 52% from a level of 70% in 1974, essentially as a result of the development of new markets in Europe and the Middle East. Commodity exports to the Middle East, earlier negligible, amounted to more than US\$ 1.04 billion in 1977. In 1977, Korea won construction contracts, mostly in the Middle east, worth about US\$3.5 billion (including the cost of materials and equipment supplied from Korea).

Structure of Industry

1.04 The following table shows the changes in the sectoral composition of the manufacturing sector between the years 1971 and 1976.

Table 1.1: VALUE ADDED IN MANUFACTURING /a
(W billion)

	<u>1971</u>		<u>1976</u>		<u>Growth rate</u>
	<u>Value</u> <u>Added</u>	<u>%</u>	<u>Value</u> <u>Added</u>	<u>%</u>	<u>%</u>
<u>Light Manufacturers</u>					
Food, beverages, tobacco	191.0	29.0	301.4	18.1	9.5
Textiles, footwear, leather	150.4	22.8	560.0	33.7	30.1
Wood, furniture, paper printing	48.1	7.3	77.6	4.7	10.0
Rubber, clay, glass, stone products	40.5	6.1	78.0	4.7	14.0
Plastics	9.5	1.4	16.0	1.0	11.0
Subtotal	<u>439.5</u>	<u>66.7</u>	<u>1,033.0</u>	<u>62.1</u>	<u>18.6</u>
<u>Heavy Manufacturers</u>					
Chemicals, petroleum and coal	117.4	17.8	213.7	12.9	12.7
Basic metals, metal products	22.3	3.4	70.7	4.3	21.0
Machinery (including electrical)	35.6	5.4	208.9	12.6	42.5
Transport equipment	28.1	4.2	91.7	5.5	26.7
Subtotal	<u>203.4</u>	<u>30.8</u>	<u>585.0</u>	<u>35.2</u>	<u>23.5</u>
Miscellaneous Industries	16.3	2.5	44.4	2.7	22.2
<u>Total</u>	<u>659.2</u>	<u>100.0</u>	<u>1,662.4</u>	<u>100.0</u>	<u>20.3</u>

/a At 1970 constant prices.

Within light manufacturing industries, food processing has declined from 29% of total manufacturing value added in 1971 to 18% in 1976, while textiles, footwear and leather increased from 23% to 34%, due to the sustained demand for these traditional export items. Light manufactures have only marginally declined from 67% of total manufacturing value added in 1971 to 62% in 1976. Conversely heavy manufactures have risen from about 31% to 35% over the same period. Chemicals, petroleum and coal still make up the single largest subsector within heavy manufactures but the expansion of these industries has been slower than the overall growth of manufacturing value added and their contribution to total manufacturing value added has consequently declined from 18% to 13%. Basic metals and metal products have roughly maintained their share. A substantial increase has taken place in the share of transport from 4% to 6% and more strikingly in the share of machinery which has risen from 5% of manufacturing value added to close to 13%. Machinery manufacturing has had the highest growth rate within the manufacturing sector with an average of 43% p.a. A more radical shift in the structure of the manufacturing sector will be encouraged by the Government in coming years towards more skill-intensive subsectors such as machinery and electronics where Korea enjoys a competitive advantage over other developing countries because of the relative abundance of its skilled labor. This deepening of the Korean industrial structure represents a major objective of the Fourth Five-Year Plan (1977-1981) and is expected to result in a relative reduction in the share of light industries in manufactured exports and output.

Geographic Distribution

1.05 In 1975, approximately 27% of the population of Korea lived in the cities of Seoul and Pusan; the Province of North Gyeongsang where Taegu, the third major industrial city, is located, accounted for another 14% of the population. The following table shows that the regional distribution of industry and industrial employment is also skewed in favor of Seoul and Pusan.

Table 1.2: GEOGRAPHIC DISTRIBUTION OF INDUSTRY
(Percent)

	1971			1975		
	No. of estab- lishments	No. of workers	Value added	No. of estab- listments	No. of workers	Value added
Seoul and Pusan	30.3	45.4	45.2	33.4	45.6	36.5
Other Regions	69.7	54.6	54.8	66.6	54.4	63.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Report on Mining and Manufacturing Survey, EPB 1975.

There was little change in the geographic dispersal of industrial employment in Korea between 1971 and 1975; Seoul and Pusan remain by far the largest industrial centers. The Government, however, has become increasingly aware of the need to achieve, through a wider geographic dispersal of industries, a better distribution of employment opportunities and a reduction of the congestion and overcrowding in Seoul and Pusan. The Government has been promoting the development of industrial centers outside these two areas principally through the establishment of free trade zones and industrial estates. Major examples of this policy are the iron and steel plants in Pohang, the petrochemical complex in Ulsan, the integrated chemical industry in Yeosu, and the machinery center at Changwon. The Saemaeul Movement initiated in 1971, also aims at creating industrial employment opportunities in rural areas and at reducing the disparities of income between urban and rural areas.

Financial Structure of Enterprises

1.06 The interest rate structure and slowdown in economic activity during the period 1970-72 had resulted in a deterioration of the financial position and structure of Korean enterprises. Companies had become highly dependent on the high cost, short-term "curb-market" for their financing. To improve their situation, a Presidential Decree of August 1972 froze all loans from the unorganized money market and new measures were adopted which lengthened maturities of certain loans, reduced interest rates to 16.8% p.a. and converted loans from shareholders into equity. These measures as well as the remarkable performance of the Korean economy in 1973 resulted in a considerable improvement of the financial position and performance of Korean enterprises. The aggregate debt/equity ratio of manufacturing enterprises fell from 3.9:1 to 3.1:1 in 1972 and 2.7:1 in 1973. The average interest rate on borrowings of manufacturing enterprises concurrently declined from 13.4% to 8.6%. Profitability improved markedly with net profits increasing from an average of 1% of total assets in 1971 to 7.9% in 1973. With the quadrupling of oil prices at end-1973 and sharp increases in the costs of raw materials, enterprises were again subject to considerable financial strains. Capacity utilization declined and costs of production increased substantially. In an effort to sustain economic activity and employment, the Government helped finance the buildup of manufacturing inventories. Enterprises had to resort to increased borrowings and the aggregate debt/equity ratio increased to 3.2 in 1974 and 3.6 in 1976. Profitability decreased with net income declining as a percentage of total assets from 7.9% in 1973 to 5.7%, 3.9% and 4.6% respectively in 1974, 1975 and 1976. Although statistics are not yet available for 1977, there is some evidence that with the upturn in economic activity from the end of 1975 the financial structure and performance of Korean enterprises have improved.

Trends in Industrial Investment

1.07 Fixed investment in the manufacturing sector amounted to approximately W 714 billion in 1976 which represented an increase of about 15% in nominal terms over 1975. Some 78% of this amount was invested in the heavy industrial sector, principally basic metals and chemicals which received respectively 34% and 20%. Investment in light industries amounted to W 154 billion of which 72% was in textile industries. About two-thirds of total

manufacturing investment was financed by foreign and domestic loans with the remainder coming from equity investments, bond issues and internally generated funds. Over 60% of investment expenditures was for procurement of machinery and equipment. Investment in nonmanufacturing industries ^{/1} increased by 17% in nominal terms. Investment in power accounted for 74% of this increase. For 1977 provisional figures indicate a level of manufacturing investment of about W 1,300 billion, split 85:15 between heavy and light industries. Investment in base metals and chemicals were again the principal categories in the heavy industry sector accounting for 55% of total manufacturing investment while textile investment was the principal category in the light industry sector accounting for 13% of total manufacturing investment. During the Fourth Five-Year Plan period the growth rate of GNP is expected to be 9.2% per annum with mining and manufacturing growing at 14.2% p.a. Total gross fixed investment is projected at W 18,000 billion ^{/2} for the Plan period with manufacturing accounting for 28.3% by the end of Plan period.

Industrial Policies

1.08 Over the past ten years, industrial incentives in Korea have been highly responsive to particular and changing circumstances, and varied with Government policies and priorities for industrial development. These policies aimed, with variable emphasis, at the promotion of export industries and of foreign investment, geographic dispersal of industry, assistance to small and medium industries and, more recently, investment in heavy industries.

1.09 A comprehensive incentive system was established during the first half of the 1960s which generally favored exports over import substitution. The main elements of the incentive package included unrestricted access to and tariff exemptions on, imports of raw materials and capital goods, generous waste allowances in determining duty-free raw material imports; direct and indirect tax reductions; access to subsidized credit for working capital and fixed investment; and rate subsidies on certain inputs. Key import substituting industries received protection from imports through tariffs and quantitative import controls. Estimates of effective subsidy rates show, however, that export activity was generally favored over import substitution. The international competitiveness of Korean industry had substantially improved between 1970 and 1973 due to several devaluations of the won, and the Government consequently decided to reduce export incentives. Reductions in corporate income tax were abolished and preferential interest rates increased. In 1975, tariff exemptions on imported inputs were abolished in favor of a system by which the tariff on imported inputs is paid at the time of importation and rebated at the time of export. Tariff exemptions on imports of machinery and equipment by export industries were abolished in 1974;^{/3} payment of custom duties can, however, be stretched over a three-year period.

1.10 While key import substituting industries have been granted many of the preferences given to exporters, production for domestic sale has generally been subject to higher duties, taxes and interest charges but has benefited

^{/1} Fisheries, mining, construction, electricity, hotels and transportation.

^{/2} At 1975 prices.

^{/3} Only in the case of capital goods imported under foreign capital financing is there still complete and automatic exemption from tariffs.

from tariffs and restrictions on imports. Over the last few years there has been a modest decline in tariff rates,^{/1} and an increase in reliance on import restrictions, as a means of affording protection to domestic producers particularly in the case of capital goods. However in 1977 the Government relaxed some of these restrictions as part of an import liberalization program.^{/2} As a counterpart for the protection afforded to domestic producers through import controls, the Government in 1976 established price controls for major commodities.^{/3}

Prospects

1.11 Export orientation has been the dominant feature influencing the structure and rate of expansion of the manufacturing sector. Export growth has been accompanied by a policy of selective import-substitution which has helped the aggregate dependence upon imported intermediate inputs and capital goods remain at roughly the same level over the last decade. Although import substitution has played a significant role in some sectors and over specific time periods, its contribution to the growth of manufacturing output has been very limited. It is estimated that over the period 1960-68 domestic demand contributed some 60% to the growth of manufacturing, while export expansion and import substitution contributed respectively 38% and 2%. The emphasis given to exports of light manufactures has resulted in a rather high degree of dependence upon imports as a source of raw materials and intermediate inputs, as is reflected in the fact that the domestic value added content of Korea's exports is only about 50%. While it is clear that Korea's poor natural resource endowment limits the scope for backward linkages, there is a real need for Korea to undertake a deepening of its industrial structure. Awareness of the desirability of deepening Korea's industrial structure was present in the formulation of both the Second and Third Five-Year Plans and lies behind the decision to build the first integrated steel mill and petrochemical complex. The long-term plan covering the decade up to 1981 which was published by the Economic Planning Board (EPB) in 1973 emphasized the accelerated development of the heavy and chemical industries as a critical element of Korea's future industrialization. The 1973-74 economic setbacks have rendered a reexamination of this long-term development plan necessary and while, in the fourth Five-Year Plan, emphasis remains on developing heavy industry and on increasing the domestic content of exported manufactures, some heavy capital and energy-intensive projects have been deferred or cancelled altogether.

1.12 Along with the general objectives of further strengthening Korea's balance of payments and maintaining a rapid growth in employment, a major goal

^{/1} The average tariff rate which remained roughly stable between 22% and 24% in 1969 to 1972, rapidly declined to about 12.8% in 1975.

^{/2} The number of prohibited items has declined from 77 in 1968 to 66 in 1975 and to 60 in 1977 while items subject to import restrictions increased from 398 to 597 in 1976 but were reduced again to 456 in 1977.

^{/3} In March 1976, the Government enacted the Price Stabilization and Fair Trade Law.

of the Fourth Five-Year Plan's industrial policy is to achieve a structural shift within the manufacturing sector towards more skill intensive sectors such as machinery and electronics where Korea enjoys a competitive advantage over other developing countries. This strategy will also help deepen the structure of the industrial sector.

1.13 Over the five-year period of the Plan (1977-81) the GNP is expected to grow at a rate of 9.2% p.a. fueled by a 16.5% annual growth in the volume of manufactured exports. The manufacturing sector which now accounts for 30% of GNP is expected to increase at 14.3% p.a., a higher rate of growth than that of GNP, which would bring the contribution of the mining and manufacturing sector to 41% of GNP by 1981. It is expected that some 55% of the two million new jobs to be created during the Fourth Five-Year Plan period will be in the mining and manufacturing sector. As in previous years, Korea's economic development would essentially be export-led, the ratio of commodity exports to GNP which reached 27% in 1975 would rise to 42% by 1981. However, compared to their real growth rate of 32% p.a. over the period of 1967-75, exports are projected to increase at a more modest 16.8% p.a. The Plan is based on the assumption that Korea's exports of textiles, clothing and other light manufactures have a limited growth potential and are subject to encroachment by other developing countries. Korea's comparative advantage will, therefore, increasingly lie in industries which require more skilled labor and greater industrial sophistication such as machinery, electronics and shipbuilding. The real growth of exports of these products would be around 30% p.a. over the 1976-81 period. The share of manufactures is expected to rise from about 85% of total merchandise exports in 1975 to 92% by 1981. In order to sustain the projected GNP growth rate of 9.2% p.a., gross fixed investment would need to rise at 7.8% p.a. In relation to GNP, the projected investment is slightly lower than in the Third Plan period (26.2% of GNP as against 26.9% during the 1972-76 period). The share of manufacturing investment in total gross investment is projected to increase by only 2% from its average share of 24.6% during the Third Five-Year Plan to 26.5% during the Fourth Five-Year Plan. The shift in Korea's export strategy towards more skill-intensive exports is reflected in both the planned structure of industrial output and in projected investment allocations. The share of heavy and chemical industries is expected to rise from 43% of total manufacturing output in 1975 to nearly 52% by 1981. Investment in light industries is expected to decrease from 40% of total investment outlays in the manufacturing sector over the Third Plan period to 36% over the next five years; conversely, investment in the heavy and chemical industries such as basic metals and chemicals would be reduced in relative terms from approximately 75% of investment outlays in heavy and chemical industries over the Third Plan period to 61% over the Fourth Five-Year period in favor of investment in machinery and electronics which would increase from 25% to 39%.

1.14 The Plan's estimate of total investment required for the expansion and restructuring of Korea's industrial sector has been set at around \$10.5 billion over the 1977-81 period. There are grounds for believing, however that Korea's investment needs for 1977-81 may have been underestimated, while the domestic savings target (which calls for an increase in the proportion of domestic savings to GNP from 16.3% in 1970 to 27.1% in 1981)

appears somewhat ambitious. The conjunction of these two possibilities would lead to a continued reliance on substantial inflows of foreign capital. The Korean Government has in recent years undertaken a major effort to mobilize domestic resources. Toward that objective, the Government established in 1973 the National Investment Fund (NIF), which is expected to finance a sizeable portion of the investment needs of Korea's major industries. The NIF was conceived as an important supplement to various programs of domestic savings mobilization, and particularly as a source of funds for long-term investment, primarily for plant and equipment. The NIF derives its funds from a variety of sources including the national savings associations; pension funds; postal savings; deposits in banking institutions (20% of increases in which must be invested in NIF bonds); savings funds; and NIF's bond sales to the public. The Government has also embarked on a comprehensive capital market development plan, including the restructuring of the Korean Securities financing Corporation and the development of new financial institutions such as merchant banks and the Korea Export Import Bank. Over the period 1977-81, the Plan expects domestic funds to provide 63% of the aggregate investment in manufacturing and foreign capital to provide the remainder. About three quarters of this foreign investment is expected to be directed to the heavy and chemical sectors.

1.15 The Bank has worked closely with the Government in the formulation and implementation of industrial policies and is in basic agreement with the main thrust and priorities of these policies, including those contained in the Fourth Plan.

2. THE FINANCIAL SECTOR

Institutional Setup

2.01 The financial sector of Korea consists of the Bank of Korea, Deposit Money Banks and nonmonetary financial institutions. The Bank of Korea performs regular central banking functions, including the supervision of commercial banks.

2.02 Deposit Money Banks include commercial banks and specialized banks. Commercial banks receive most of their funds through deposits from the public. They can make all kinds of loans but have traditionally concentrated on short-term lending although term financing through roll-over of short-term loans is common. There are 5 nationwide commercial banks, 10 banks with localized operations and 11 branches of foreign banks which together had 693 branches/offices around the country at end-1976 (all these fall into the category of "commercial banks"). Four of the five nationwide commercial banks are fully controlled by the Government which, under Korean law, automatically receives majority rights if its holding in a nationwide bank is 10% or more. The fifth bank is controlled by the semiofficial Korean Traders Association. All commercial banks are subject to control and supervision by the Bank of Korea while specialized banks are directly controlled by the Ministry of Finance. The specialized banks were all established under a Special Banking Act and are subject to only a few specific Articles of the

Bank of Korea Act and General Banking Act. Specialized banks are government-controlled and/or owned. As their name implies, they were founded for particular purposes or sectors (such as small-scale industry financing or agricultural financing) and government funds constitute a substantial part of their financial resources in addition to resources raised otherwise, the bulk of which consists of deposits raised from the public, hence their categorization as Deposit Money Banks. Specialized banks include the Korea Exchange Bank, which was established in 1967 mainly to relieve the Bank of Korea of commercial foreign exchange business, the Medium Industry Bank which extends financial and technical assistance to small and medium-scale industries, and which has so far received two Bank loans totalling US\$85 million,^{/1} the Citizens National Bank (mainly for mobilizing small savings and financing household loans and small enterprises), the Korea Housing Bank, the National Agricultural Cooperative Federation (NACF) and the National Fisheries Cooperative.

2.03 Besides the above-mentioned banking institutions which, with the BOK as supervising agency, constitute the "Monetary System," there are several nonbanking financial institutions, namely: (a) development finance institutions; (b) savings institutions; (c) life insurance companies; (d) investment companies; and (e) Merchant Banks. The development finance institutions comprise the Korea Development Bank (KDB) which so far has received two Bank loans totalling US\$142.5 million, Korea Development Finance Corporation (KDFC) to which Bank Group assistance, including IFC, amounts to US\$240 million to date,^{/2} the Land Bank and the Export-Import Bank. Savings institutions comprise some 1,200 authorized credit unions (at end-1976) and 211 mutual savings and finance companies. Five life insurance companies operate in Korea, in addition to the Postal Life Insurance and the Educational Insurance Company. Investment companies include the Korea Securities Finance Corporation which is the principal organization for securities financing in Korea, ten short-term finance companies ^{/3} and the Korea Investment Trust Corporation which is specialized in the establishment of investment trust funds. In addition, three leasing companies have been established over the last few years as joint ventures between Korean and foreign investors. The Merchant Banks are the latest arrivals on the Korean financial scene. Five such banks have so far been established; the Korean Merchant Banking Corporation (KMBC); the Korea-Kuwait Banking Corporation; the Saehan Merchant Banking Corporation; the Korea-French Banking Corporation and the Asian Banking Corporation. As of December 31, 1977 these merchant banks had total assets of W 56.8 billion (US\$117 million) and issuance of their own commercial papers accounted for 70% of their funds raised while discounting of commercial papers accounted for 75% of their operations.

^{/1} Please refer to report No. 1797-NO dated November 30, 1977: Staff Appraisal Report on the Medium Industry Bank.

^{/2} Please refer to report No. 1578-KO dated May 26, 1977: Appraisal of the Korea Development Finance Corporation.

^{/3} Including the Korea Investment Finance Corporation (KIFC).

2.04 As of December 31, 1977, total loans outstanding to the manufacturing sector by all banking institutions in Korea including KDB amounted to W 3,115 billion (US\$6.4 billion equivalent). About 73% of this amount was for operating funds, mainly supplied by commercial banks. The largest supplier of equipment loans (i.e., term loans) is KDB which, as of the above date had an outstanding portfolio in the manufacturing sector of W 452 billion (US\$932 million), about 53% of the outstanding medium and long-term credit by banking institutions to the manufacturing sector as of that date.

Capital Market

2.05 The Korean Stock Market was moribund for many years but showed signs of life in 1972. Before then the yields on stocks were considered unattractive as both savings accounts of commercial banks and the "curb market" gave higher returns. The market was also thin because closely held companies were reluctant to go public. With the mid-1972 economic boom and the adoption of new financial measures by the Government (para. 1.06), the public showed growing interest in the stock market. The curb market was severely checked as a result of the August 1972 measures and with decreasing interest rates served by commercial banks, yields on stocks became attractive. In addition, the overall investment climate became more favorable after August 1972, and the campaign for more stock listings and for companies to go public was intensified. The result was a large increase in stock exchange activity in the second half of 1972 and in 1973. In 1974, however, trading activities on the exchange slowed down considerably, due to the gloomy business outlook; new stock listings, however, continued to rise reaching almost W 500 million at the end of 1974. The following table summarizes the stock exchange activity over the last six years (figures are shown as of the end of each period):

Table 2.2: STOCK ACTIVITY 1971-1977

	No. of listed companies	No. of shareholders (in '000)	Capital of listed stock (W billion)	Market value of listed stock (W billion)
1971	50	81.9	141.4	108.7
1972	66	103.3	174.3	246.0
1973	104	200.0	251.6	426.2
1974	128	199.9	381.3	532.8
1975	189	290.7	643.4	916.0
1976	274	568.1	1,153.3	1,436.1
1977	323	395.3	1,492.4	2,350.8

With the general improvement of the business climate and improved export prospects, trading picked up again around mid-1975 and for the year as a whole the number of stocks listed almost doubled.

2.06 In 1976, the capital market was rather sluggish in comparison to the previous year mainly because of the Government's tight monetary policy. The general stock price index stood at 425.3 at end-1976, an increase of 8%

only during the year, compared with a 44% gain a year earlier. On the other hand, the issuing market was very active during the year as a result of the Government's efforts to promote the "going public" of privately-held companies. The number of listed companies increased by 85 to 274 in the year and a total of W 263 billion was mobilized through the capital market, a 69.5% gain over the previous year. During the year, the number of shareholders increased substantially. Over the years, the ownership structure has broadened, though as at October 31, 1976, more than 68% of all shareholders still held less than 100 shares each and accounted for only 2.05% of all shares outstanding. The importance of the Government as a shareholder of listed companies also decreased; while the Government (including public bodies) held about 39% of the total number of listed stocks in 1970, its holdings had declined to 13% by October 31, 1976. The proportion held by banking institutions also declined from 15% to 9% during the same period.

2.07 During 1977, the capital market exhibited a highly active performance in response to the Government's vigorous efforts to promote the going public of privately held companies. The supply of capital through the stock market to business firms during the year totalled W 363 billion, which exceeded the year's target of W 320 billion. Of this, W 44 billion was through public offering of equity shares, W 142 billion through share capital increases of listed companies, and the remaining W 177 debentures. The volume of transactions in the secondary stock market expanded by 119% during 1977, recording the trade volume of W 1,375 billion (1,271 million shares) and the number of listed companies on the Korea Stock Exchange increased by 49 to 323. The stock price index rose by 32.6%, largely led by the substantial gain in prices of stocks of those companies engaged in construction services, automobile manufacturing and cement industries.

2.08 The rapid increase in the volume of operations on the Stock Exchange had rendered certain improvements necessary. Among others the call market has been replaced by a continuous auction market, investment trust companies have been established, and the information system greatly improved. Several weaknesses remain, however. One of the more important problems lies in existing laws which stipulate that new equity issues have to be at par irrespective of the market price of stocks. These regulations are currently under review by the Government. In addition, gradual internationalization of the domestic stock market is being initiated by the Government.

Interest Rates and Monetary Policy

2.09 The Government through the Monetary Board determines interest rate ceilings on deposits and loans which apply to all banking institutions. Although private specialized financial institutions such as KDFC or the short-term finance companies are not legally bound, in practice, they too have to follow government policies. The development of Korea's interest rate structure has, between 1968 and 1973, seen a continuous reduction in both deposit, and lending rates. The lowering of the rates coincided with the Government's success in gradually bringing inflation down until late 1973. With the emergence of the oil crisis and worldwide inflation, Korea's price structure was particularly hard hit because of its high foreign trade dependence. Wholesale prices are estimated to have increased by nearly 80%

between the end of 1973 and the end of 1975. While the Government selectively increased interest rates at the end of 1974,^{/1} a general increase of interest rates was postponed because enterprises were already facing severe financial strains and the Government hoped to succeed in bringing inflation under control. During the year 1976, wholesale prices are estimated to have increased only by 12.1% on an annual basis.

2.10 On August 2, 1976, the Government made an extensive upward adjustment in and revision of the interest rate structure in order to contain excessive loan demand and to better allocate funds. Prior to this date, Korean commercial banks had already resorted to various practices which resulted in increased collateral requirements and higher effective lending rates for their less creditworthy borrowers. Such practices included the collection of interest in advance, the establishment of compensating balances on time deposits or even the opening of installment savings accounts which are used both as collateral and sinking funds. The August 1976 measures acted to ratify and further rationalize this system of differentiating between borrowers on the basis of the risks involved. It led to a system whereby (a) the interest rates on working capital loans vary according to the credit standing of the borrower and (b) interest rates on equipment loans vary according to the loan maturity. The Korean financial authorities established a list of criteria for enterprises to qualify as a prime borrower which has helped reduce the need for subjective judgments on the creditworthiness of borrowers. This introduction of a prime rate system for working capital loans and of differential rates according to loan maturities for equipment loans constitutes an important step towards improving the overall allocation of funds to industry.

2.11 Effective July 1, 1977, the Government replaced the previous excise business and consumption taxes by the value added tax (VAT) system, all goods and services being assessed at a flat rate of 10%. There was some apprehension amongst the general public that the new taxation system might result in an increased tax burden on industrial enterprises and consequently in sharp rises in the cost of living. While the Government did not subscribe to this thinking it decided to introduce various anti-inflation measures to moderate the possible adverse impact of the new tax system. These measures included: (a) a lowering of bank lending rates by 1% on July 1 and a further 1% on October 1; time deposit rates were also lowered by 1.8% as from October 1, 1977; (b) the Government realigned and announced the prices of 851 major commodity items, pegged the maximum permissible price levels of major daily necessities and froze public utility rates until further notice; (c) easing of import restrictions as discussed in para. 1.10; and (d) measures to restrict growth of money supply including issuance of treasury bills and repayment of some Government borrowings from the Bank of Korea.

2.12 The rate of increase of wholesale prices in 1977 is estimated at 10.1% and the growth of domestic money supply at 41.4%. The targets set for 1977 as a whole were a 10% limit to wholesale price increases and about a 25% limit to domestic money supply growth. The money supply in the foreign sector more than doubled in 1977 and in the last quarter of 1977 the Government introduced various measures to curb its growth. Foreign banks were instructed

^{/1} Rising rates on time deposits for over three months and over six months from respectively 12% and 13.2% to 15%, and preferential rates for loans from the NIF and IRF from 9% and 8% respectively to 12%.

in early December to freeze their won loans at their October 1977 level; reserve requirements for foreign currency deposits have also been established and enforced. Further measures have also been taken to curb money supply growth in the domestic sector; however, price controls were partially eased in two stages on August 1, 1977 and December 1, 1977. Interest rates as of December 31, 1977 are shown in Annex 4, T-1.

3. THE KOREA DEVELOPMENT BANK

A. KDB'S ROLE IN THE ECONOMY

KDB In Perspective

3.01 One measure of KDB's importance to the Korean economy is the scale of its operations. It is by far the largest financial institution in Korea. Its outstanding loan portfolio of W 1,008 billion (US\$2.0 billion) as of December 31, 1977 represented 16% of the total loans (both short and long term) of all banking institutions in Korea and about one half of all medium and long-term loans outstanding by the banking sector to the manufacturing sector. Its foreign guarantee portfolio of US\$6.7 billion represented about 40% of the external medium and long-term debt of Korea. Its clients were responsible for over 55% of Korean exports in 1976. Its disbursements for loans and investments in 1977 amounting to W 406 billion (US\$837 million equivalent) directly financed about one fifth of fixed investment in the manufacturing sector and 8% of total fixed capital formation in Korea. Including its guarantee operations (US\$2.2 billion) it assisted in the financing of about 38% of total fixed capital formation in Korea during 1977. Apart from the volume of its financing, KDB makes valuable qualitative contributions to the industrial sector through its high operational standards, its efficiency as a resource allocator, its promotional activities, its resource mobilization efforts and its considerable economic and industrial research work. These aspects of KDB's operations are discussed in the following paragraphs.

Relationship with Other Development Finance Institutions

3.02 Besides KDB, there are three other major institutional sources of medium and long-term loans for the industrial sector; the Korea Development Finance Corporation (KDFC); the Medium Industry Bank (MIB); and the Citizen's National Bank (CNB). Each of these fulfills somewhat different functions and aims at different sectors of the economy. MIB confines its financing to small and medium industries, /1 while CNB is concerned with financing very small or cottage industries. /2 There is some overlap between the functions of KDFC and KDB but while KDFC principally concentrates on foreign currency equipment financing for the private manufacturing sector, KDB's coverage is

/1 The definition of which was revised in January 1977 to include manufacturing enterprises with up to 300 regular employees or total assets of up to W 500 million (US\$1 million). MIB's loan portfolio outstanding as of June 30, 1977 was W 266 billion (US\$548 million).

/2 CNB provides domestic currency term financing (up to 5 years) for enterprises employing up to 100 persons. Maximum loan size is W 30 million and CNB's outstanding portfolio as of June 30, 1977 was W 293 billion (US\$604 million).

considerably wider in terms of type of financing (foreign or domestic; equipment or working capital), sectoral coverage and financing of both private and public projects./1 The volume of KDB's lending is also considerably larger than that of KDFC. In 1976 KDB's loan approvals were 3.5 times larger in value than KDFC's. In the particular field of foreign currency financing for the private sector, however, the importance of KDFC's role comes close to, or indeed may exceed that of KDB./2

3.03 KDB undertakes domestic and foreign currency lending for both equipment and working capital financing, equity investments and guarantee operations. In 1977 its loan commitments totalled W 346 billion (US\$713 million) split 88:12 between domestic and foreign currency lending and 83:17 between equipment and working capital financing. New investments in equity and debentures were W 73.5 billion (US\$152 million); and the guarantees issued during the year were W 1,049 billion (US\$2.16 billion). Its clients fall into three major categories: public enterprises in the energy, transportation, social infrastructure and manufacturing sectors /3; large private enterprises such as Dae Woo Heavy Industries whose long-term debt capital needs are so large that only KDB, amongst the development banking institutions in Korea, can assist them (usually, in conjunction with other lenders);/4 and thirdly, a more typical development banking clientele consisting of medium-sized to large private enterprises. The first two categories constitute a large percentage of KDB's loan portfolio in value terms but a small percentage in terms of number of enterprises./5 Although KDB's clients are generally medium sized and large enterprises, the evidence indicates that they in turn are closely involved with smaller firms through subcontracting arrangements, the practice of which is widespread in Korea. KDB does not usually undertake lending to small scale enterprises and its institutional focus and organizational structure are not geared towards small scale industry lending. It would serve no useful purpose for KDB to undertake more of this type of lending because of the predominance in this field of MIB and CNB, whose organizational structures and operational focus better match the needs of the small scale sector. The existing demarcation of functions between KDB, MIB

/1 KDFC's loan portfolio outstanding as of September 30, 1977 was US\$186 million equivalent of which US\$174 million or 92% was foreign currency lending, 97% equipment financing and totally for the private sector. By comparison KDB's loan portfolio outstanding as of the same date was US\$1.8 billion equivalent of which 89% was for domestic currency lending, (with the balance of US\$198 million or 11% representing foreign currency lending), 87% for equipment financing and 54% for the public sector.

/2 KDB's foreign currency loan commitments in 1976 were US\$70 million equivalent as opposed to KDFC's foreign currency loan commitments of \$68 million equivalent.

/3 Loans to public enterprises (45 companies) still constitute 53.6% of KDB's outstanding portfolio while loans to only 8 of these public companies constitute 47% of KDB's portfolio.

/4 Loans to 6 private companies constitute a further 13% of KDB's portfolio.

/5 Loans to a further 512 private companies constitute the remaining 33.3% of KDB's portfolio. Thus 9% of KDB's borrowers (public and private) comprise two-thirds of its portfolio while 91% (all private companies) only comprises one-third of the portfolio.

and CNB is appropriate, because it allows these three institutions to provide specialized assistance covering the full spectrum of Korean industries (large, medium and small).

KDB's Role in the Government's Development Strategy

3.04 Within the framework of the Government's development strategy, KDB plays an important role both by acting as an instrument of the Government for the execution of its industrial policies and by providing valuable inputs into the Government's decision making process.

3.05 KDB as an Executing Arm of the Government. In terms of its Act, KDB provides financing, in conformity with Government policies, to major industrial projects. KDB's support of Government policies is reflected in its annual Operational Program which KDB formulates on the basis of its own demand forecast and specific project proposals by various Government ministries. This Operational Program also contains the sources from which KDB would draw funds including the National Investment Fund (NIF). KDB is on the one hand a conduit for channelling Government funds to specific priority projects of national importance, such as Korea Electric Company (KECO), Korea National Railroad or Pohang Integrated Iron and Steel Company, and on the other hand it functions as an efficient allocator of resources raised by the NIF or by itself independently. In 1977, for instance, KDB received from the Government W 46.2 million in loans and capital subscriptions, representing 5.3% of the Government's capital expenditures for the year. It also received W 99.7 million from the NIF, representing about 45% of the total NIF's funds mobilized in 1977 (see para. 1.14). The above two sources together constituted 46% of new resources raised by KDB in 1977. In the allocation of these resources, and of the funds it raised on its own, KDB emphasizes Government priorities by supporting export oriented projects and projects in priority sectors. The order of priority in allocation of funds in its 1978 Operational Program is (a) Government projects for which funds have been earmarked; (b) equipment financing in the machinery, shipbuilding and electronics equipment industries; (c) equipment financing in priority industries as defined in Article 18.1 of the KDB Act - electricity, coal, iron and steel, and overseas air and marine transportation; (d) equipment financing in heavy chemicals, petrochemicals, base metals and cement; and (e) equipment financing in other industries and sectors and working capital financing in all sectors.

3.06 KDB's Input into Government Industrial Policies. KDB has contributed to the formulation of Government policies in the industrial and financial sectors by (i) giving its opinions on policy issues when called upon by the Government, (ii) assisting in Government-sponsored studies and programs, and (iii) the participation of members of its management in various Government committees. KDB has carried out numerous studies, often including specific recommendations, which have subsequently been used as a basis for discussion within the Government or been incorporated in various policy measures. Studies that were undertaken during 1975 included a survey of major export industries with recommendations for specific action; forecast of supply structure and computation of investment requirements by type of industry; specific recommendations for increasing resource mobilization for the NIF; a study on industrial estates; and sector studies of the shipbuilding and iron and steel industries. KDB was also involved in drafting the Korean Industrial Leasing Law. Further,

its studies concerning the establishment of a merchant banking system are reflected in the Merchant Banking Law enacted in December 1975. Studies undertaken in 1976 included investigation of future investment requirements of the machinery industry and a financing plan for both this industry and the shipbuilding industry; proposed revisions to the Commercial Code; a financial sector study; a survey of low income workers; proposed changes to taxation laws; an international capital market study; contributions to a Government white paper on public enterprise policies; and a survey of projects which are expected to induce foreign capital during the Fourth Five Year Plan period.

3.07 Industrial Rationalization Study. In 1977 a major study on industrial rationalization in Korea, involving 30 professional staff, was started by KDB. The purpose of this study is to recommend industrial policies designed to sustain a high level of economic growth as Korea moves towards an increasingly open economy with a low or negligible level of protectionism. Measures for the strengthening of the international competitiveness of domestic enterprises and for enhancing industrial efficiency and productivity are being studied in the light of both world and domestic economic conditions and prospects. The study covers 27 industrial sectors and involves extensive cross country comparisons. It is expected to be completed towards the end of 1978.

3.08 For the preparation of the country's Five-Year Plans, including the present planning exercise, KDB has provided valuable assistance by conducting surveys to build up basic targets, including sector demand/supply forecasts and investment targets. KDB is well qualified to render this service to the Government, since it has a competent, trained staff, performs regular financial and production surveys and, through its day-to-day operations, is in close contact with the business community. Particularly for this latter reason, the participation of KDB's Governor and other members of its management in many Government committees provides the Government with an additional valuable perspective in its decision-making process. Committees on which KDB is represented include the Economic Cabinet Meeting, the Foreign Capital Inducement Deliberation Committee, the Advisory Committee for Economic Planning, and the NIF Management Council.

3.09 Apart from the specific contributions stated above, KDB's economic research is well recognized in Korea and many of its studies and surveys are published and receive wide circulation. For instance, KDB publishes an exhaustive annual survey of the financial condition of enterprises, a Monthly Economic Review, a half yearly survey on Equipment Investments and Programs, a Monthly Research Report and Weekly Economic Reports which present studies on topical domestic and international business issues.

Economic Impact of KDB's Lending

3.10 Scale of Output and Value-added of KDB Projects. In 1975 KDB financed 512 projects with a total project cost of Won 323 billion (US\$666 million) generating incremental annual sales of W 551 billion (US\$1.14 billion) and incremental annual value added of W 107 billion (US\$ 221 million). In 1976 it financed 587 projects with total project cost W 434 billion (US\$895 million) generating incremental annual output of W 787 billion

(US\$1.62 billion) and incremental annual value added of W 138 billion (US\$285 million). In the first six months of 1977 it financed 332 projects with a total project cost of W 355 billion (US\$732 million), generating incremental annual sales of W 732 billion (US\$1.5 billion) and incremental value added of W 70 billion (US\$144 million).

3.11 Employment Creation. KDB's clients employed as of December 31, 1977 a total of about 713,000 people of which its manufacturing clients employ some 539,000 workers (18% of total manufacturing employment). Projects approved for KDB's financing in 1975 were expected to create 38,000 new jobs; projects in 1976, 68,000 new jobs; and projects in 1977, 71,000 new jobs. According to data provided by KDB, the average cost per job created has been about \$18,000 in 1975-1977; this compares with an average cost per job of US\$5,000 in 1975 prices for the industrial sector as a whole and reflects KDB's role as the principal financier of large industrial projects in Korea and the emphasis it is currently placing on financing projects in priority sectors such as shipbuilding, basic metals and machinery which are generally capital intensive. Because KDB is the principal financier of large industrial projects in Korea including those in relatively capital-intensive sectors such as shipbuilding and machinery, employment creation is not as essential an objective in KDB's lending as it is in the case of the MIB and CNB which both concentrate on smaller enterprises. KDB, however, routinely analyzes the employment impact of the projects it finances, as a part of an overall evaluation of the projects' economic merits.

3.12 Export Orientation. Exports by KDB's borrowers accounted for over 55% of all Korean exports in 1976 and totalled US\$4.3 billion. Projects financed in 1975 were expected to generate additional exports of W 278 billion (US\$573 million); those in 1976, additional exports of W 300 billion (US\$619 million); and those financed in the first half of 1977, additional exports of W 120 billion (US\$247 million). Exports were expected to account for about 50% of the incremental sales generated by KDB-financed projects in 1975 and about 40% of KDB-financed projects in 1976.

3.13 Sectoral Distribution. The sectoral distribution of KDB's loans is shown in Annex 4, T-9 and discussed in para. 3.48. Particularly noteworthy in the context of illustrating KDB's role of supporting and implementing Government industrial and economic policy, is the share of commitments to the capital goods industry in KDB's annual commitments, which has risen from 22% in 1975 to 28.5% in 1976 and to 38.6% in the first 9 months of 1977. In 1975 KDB made 30 loans for the machinery sector representing 3.5% of total commitments in value terms, while in the first 9 months of 1977 it made 99 loans to that sector representing 8.3% of its total commitments.

3.14 Economic Rate of Return Analysis. Annex 4, T-2 gives a summary of economic indicators of a sample of 47 industrial projects financed by KDB under IBRD loans No. 1095-KO and 1338-KO and under its third and fourth ADB loans. The sample only includes projects financed under these loans for which economic rates of return were calculated and therefore mainly includes projects which received foreign currency loans from KDB in excess of US\$750,000 (see paragraph 3.37). All projects in the sample had ERRs in excess of 15% while 21 had ERRs in excess of 30%. For those projects for which the ERR is not available, the existence of a reasonable financial

rate of return would in most cases suggest economic viability as well, in view of the high degree of export orientation and the low level of protection of Korean industries.

Influence on Project Design and Technical Assistance

3.15 KDB's influence on project formulation is to a certain extent limited since project sponsors often approach KDB after basic decisions concerning products, technologies or location have been taken and are not, or only with difficulty, reversible. Nevertheless, KDB's appraisal staff has made sustained efforts to improve the design of projects under consideration, and often its proposals for change have been accepted by project sponsors. In various instances, KDB's suggestions have resulted in changes in scale of operations, composition of products to be produced or location of the plant site. With respect to plant location KDB has been particularly concerned to induce companies to locate in industrial estates. KDB's thorough market analyses have led some sponsors to change their marketing strategies and in a few cases have led to the postponement or cancellation of projects. KDB's technical staff carefully examines technical capabilities of sponsors, particularly if new technologies are to be introduced and has urged project sponsors to enter into technical collaboration agreements with foreign companies, when appropriate. A list of new technologies introduced into Korea in 1976 and 1977 through KDB-financed projects is shown in Annex 4, T-3. The type of equipment to be procured is normally checked with respect to local availability and KDB's suggestions have often led to savings in foreign exchange and/or project cost. The financial structure of prospective client companies is always carefully scrutinized, leading in many instances to increased capital contributions by the sponsors, thus contributing to resource mobilization at the project level. In addition KDB provides consulting services to those clients confronted with managerial difficulties, often in the form of deputation of its own staff. Assistance provided in 1975, 1976 and 1977 is outlined in Annex 4, T-4. KDB's Technical Services Department performs, for the Foreign Capital Inducement Deliberation Committee, engineering surveys on all proposed projects requesting foreign loan guarantees.

Promotional Activities

3.16 In addition to the promotional activities pursued through its lending and guarantee program such as promotion of the machinery industry and through its inputs to Government policy making, KDB has also made significant contributions to the development of the Korean financial system through the establishment of specialized financial institutions. These include a leasing company, a merchant bank, an overseas investment bank and promotion of public ownership of shares through the vehicle of its equity investments.

3.17 Korea Industrial Leasing Company, Limited. KILC was established by KDB as a wholly owned subsidiary in December 1972 and commenced operations in March 1973. Its objective is to lease industrial machinery, principally to smaller firms which cannot afford outright purchase. As of October 31, 1977 KILC's authorized capital was W 3 billion of which W 1.5 billion was paid in. KILC's operations include writing long-term

financial leases, sale and leaseback arrangements, subleases with participation of foreign leasing corporations and guarantee issuance on international leasing contracts. As of October 31, 1977, KILC had written 176 lease contracts amounting to W 33.7 billion (US\$69 million) and had made four guarantees amounting to US\$3.9 million. Of the amount of leases written, 73% was for industrial equipment and 22% for transportation equipment. A component of US\$7.5 million was made available to KILC under the previous Bank loan to KDB (No. 1338-KO) for financing enterprises with total assets of up to W 600 million or projects with an estimated cost of up to US\$15,000 equivalent per new job created. Utilization of this component has been satisfactory and as of March 31, 1978, US\$3.3 million had been disbursed and US\$6.4 million committed.

3.18 Saehan Merchant Banking Corporation (SMBC). KDB was instrumental in establishing SMBC, which started business in November 1977. SMBC is a joint venture between various Korean and international shareholders with the Korean shareholders owning 55% of the equity. KDB is the largest shareholder with 35% of the equity, followed by Hill Samuel & Co. of London with 20.5%; the remaining shares are distributed between another 8 shareholders. Its authorized capital is W 6 billion (US\$12.4 million) of which W 4 billion is paid in. The objectives of SMBC include inter alia: arranging foreign capital loans and equity capital investments and borrowing and relending foreign capital; discounting, selling and purchasing, accepting and guaranteeing of notes issued by business enterprises; underwriting; leasing; stock market issuing activities; trust business; foreign exchange business; and provision of financial advice to enterprises. In short, SMBC is expected to perform the dual function of mobilizing foreign commercial resources and developing the stock and corporate bond markets in Korea.

3.19 Korea Associated Securities Inc. (KASI). KDB has also promoted the establishment of KASI, an investment bank, which opened in New York in October 1977. It is registered under the corporate law of the state of New York. KDB holds 50% of the paid-up equity of US\$3 million; the remainder is almost equally distributed between another six Korean banks. The principal purposes of KASI are to raise foreign capital for Korean institutions and enterprises, to attract US and other foreign investments in Korea and to establish a presence for and enhance the credit standing of the Korean financial community in the international capital market.

3.20 Promotion of Wider Share Ownership. KDB makes equity investments on its own account for two principal purposes: (a) to aid companies whose equity requirements are too large to be met by the capital market at this stage of its development; and (b) to assist companies in temporary financial difficulties but whose prospects appear good. In the latter case KDB usually puts a director on the Board of the company and provides extensive managerial assistance to the company. In both cases, KDB seeks to divest itself of ownership of the shares as soon as possible and to sell these shares either to the public or to new shareholders in order to help widen the ownership of the enterprise concerned.

Resource Mobilization

3.21 KDB's resource position is analyzed in paragraphs 3.76 to 3.85. As of December 31, 1977, KDB had total resources of W 1,397 billion, of

which 84% were long-term domestic resources, 5% domestic short-term resources and 11% foreign exchange funds. Equity remains the single largest source of funds (26.1%), followed by borrowings from the NIF (21%).

3.22 As a wholly Government-owned development bank, KDB has to depend to a large extent on funds provided by the Government and the NIF, particularly since it is the Government's basic policy to use, on the one hand, the NIF as a vehicle for mobilizing domestic savings (paragraph 1.14) and, on the other hand, KDB and other development finance institutions for allocating the resources so mobilized by the NIF. For the country as a whole, domestic saving has been satisfactory, having increased substantially from 7.5% of GNP in 1965 to 16.3% in 1970 and 18.0% in 1975. (As stated in paragraph 1.14, it is the Government's objective to raise this savings rate to 27.1% of GNP by 1981.) Savings mobilized through the NIF accounted for 8.5% of total domestic savings in 1975. Notwithstanding the fact that KDB's primary function is to allocate resources, KDB has in recent years made commendable efforts to mobilize private resources in order to supplement those made available to it by the Government and the NIF. On the domestic currency side, it has issued bonds (generally with two or three-year maturity) aggregating about W 170 billion and accounting on an outstanding basis for about 5% of its total resources. The present situation of the domestic capital market does not allow KDB to issue bonds with longer maturities (say, up to five or seven years) in any significant amount, whereas KDB's own loans generally have maturities exceeding eight years. Hence, KDB's continuing need for long-term domestic currency funds from the Government and the NIF is obvious. Even if KDB were able to issue long-term bonds, these would most likely compete with NIF's own bonds and therefore might not augment the volume of overall savings mobilized. KDB's domestic resource mobilization efforts should be seen as a mere supplement to those of Korea as a whole, and in particular, to NIF's.

3.23 On the foreign currency side, KDB has in recent years raised US\$419 million from commercial sources (of which US\$294 million in 1976/77), to supplement the amount of US\$335 million it has obtained from official sources (IBRD, ADB, USAID, et. al.). This effort at mobilizing foreign private resources is satisfactory. Foreign commercial borrowings generally have short maturities (of between 2 and 7 years) whereas KDB lends to investment projects requiring long-term finance (of up to 12 years). Furthermore, the total amount of foreign commercial resources which KDB is able to obtain has been, and is expected to remain, limited by the country's overall capacity to borrow from the international capital market; and the Government itself controls tightly the amount of foreign commercial funds which KDB is allowed to raise in a given year just as the Government controls the overall inflow of such funds into Korea. In view of the foregoing, KDB will continue to require funds from official sources such as IBRD in addition to its foreign commercial borrowings. KDB's plans for foreign commercial borrowings for 1978-81 are discussed in paragraph 3.91.

Development Strategy

3.24 KDB has formulated a statement of Development Strategy (Annex 2) for the period 1978/79, highlighting its specific short-run developmental

objectives which include, inter alia, the following: (a) intensified assistance to such priority sectors as the machinery and basic metal industries; (b) further enhancing its resource allocation impact by focusing on such economic factors as export orientation, employment creation, forward and backward linkages and geographic dispersal, in taking investment decisions; (c) increasing technical assistance by providing consultancy services to clients; and (d) intensified efforts to mobilize private resources from both the domestic and foreign capital markets.

B. INSTITUTIONAL ASPECTS

Functions, Legal Framework, Organization and Staff

3.25 Broad Functions and Legal Framework. KDB was established in 1954 with the main objective of providing and administering funds, in conformity with Government policies, for the financing of industrial projects to expedite post-war rehabilitation and economic development. The types of financing operations undertaken by KDB and the sectors covered by it are described in the preceding paragraphs under "KDB's Role in the Economy." In accordance with the KDB Act, annual profits must be transferred to and losses offset against reserves or, if reserves are insufficient, any deficit will be compensated by the Government. The Act was last amended /1 in December 1977, inter alia, to increase KDB's authorized capital, to expand its field of operations and to widen the range of eligible enterprises for working capital financing.

3.26 Ownership. Under the amended Act, KDB's authorized capital, totally subscribed by the Government, will be W 600 billion.

3.27 Organization, Management and Staff Organization. In accordance with the KDB Act, the Minister of Finance supervises broadly the conduct of KDB's business. This ministerial authority notwithstanding, the Board (para. 3.30) comprising the Governor, Deputy Governor and Executive Directors, decides all important matters relating to KDB's operation. KDB's Head Office has 21 departments which have been grouped according to broad functions, each group reporting to one of the seven Executive Directors (the organization is shown in Annex 4, Chart No. 1). The Auditor and the Secretariat report to the Governor and Deputy Governor directly. Domestic loan processing (Loan Departments I and II) and foreign currency loan appraisal (Foreign Loan Department) do not include financial analysis, market and other project related studies, and accounting and management guidance as these activities are within the scope of the Business Analysis Department. Both the Shareholding and the Investment and Securities Departments deal with investments; the former, however, concentrates on KDB's subsidiaries and companies in which KDB holds more than 50% of the share capital. The Shareholding Department also becomes involved in budgeting for these companies, in training their officers, in management guidance and temporary secondment of KDB personnel to assist them. The Business Control Department is responsible for general planning and control, preparation of KDB's yearly Operational Program, borrowing and repayment of domestic funds, allocation of funds within KDB,

/1 In process.

and matters relating to overdue loans. The Technical Services Department is responsible for technical feasibility studies carried out in conjunction with project appraisal, review of clients' investment proposals, surveying of construction progress and provision of general technical advisory services. KDB's follow-up work is not entrusted to a separate department but is undertaken by the loan appraisal officers. The Foreign Capital Department is responsible for raising foreign currency funds from both official and commercial sources.

3.28 KDB has nine domestic branch offices outside Seoul; one in each of the major cities of the eight mainland provinces plus an office in Ulsan. The Head Office is responsible for all projects in the Seoul area, large Government projects, and foreign currency financing. The branch offices have the authority to approve working capital loans up to certain limits /1 but otherwise, after appraisal of projects, they forward them to the Head Office for further analysis and approval; the branch offices are also responsible for the follow-up work on projects located in their respective territories.

3.29 KDB is represented abroad by Offices in London, New York, Tokyo, Kuwait and recently in Singapore and Hong Kong. The principal functions of these offices are foreign resource mobilization and liaison with foreign equipment suppliers and banks.

3.30 Management. The list of members of the Board of Executive Directors is shown in Annex 1. KDB is managed by a full-time Board composed of the Governor, Deputy Governor and seven Executive Directors. The Governor is appointed by the President of the Republic upon the recommendation of the Minister of Finance, while the Deputy Governor and the Executive Directors are appointed by the Minister of Finance upon recommendation of the Governor. The term of office for all Board members is three years and renewable. Governor Woun Gie Kim, who has been in office since August 1972, continues to provide KDB with strong and capable leadership. Mr. Choon Taik Chung was appointed Deputy Governor in May 1976 after a career in the Ministry of Finance and after having served as the Economic Minister in the Korean Embassy in Washington. All seven Executive Directors have been promoted from within KDB and are well experienced and competent. KDB's senior management is of a very high standard. KDB also has considerable depth at the middle management level (Directors, Department Managers and Deputies).

3.31 Staff. A breakdown of KDB's professional staff by departments is shown in Annex 4, T-5. Over the past few years there has not been any significant change in the size of KDB's total staff which currently numbers 1,767 (including branch and representative office staff) of whom 573 are classified by KDB as professionals. About 20% (17% for professionals) of KDB's total staff work in the branch offices and overseas representative offices.

/1 W 30 million to W 110 million depending on the branch.

3.32 The competitiveness of KDB's salaries has been significantly eroded in the last few years, specifically in comparison with the private sector. Consequently turnover of professional staff has increased and has become a matter of concern, though voluntary resignations, after reaching a peak of about 17% (of male professional staff) in 1976, subsided in 1977 to about 9-10%. An analysis of the resignation figures between 1975 and September 1977 indicated that 75% had a working career with KDB of more than 10 years, about 46% between 15-25 years and almost none with less than 5 years. The foregoing indicates that KDB has apparently lost some of its most experienced officers. By the same token, all those who resigned had served KDB for a significant and reasonable period by any standard. KDB cannot do much to retain these middle level officers because of the greater career opportunities available to them in private industry and the financial sector. The demand for personnel of the caliber of KDB's staff is very high as a result of the growth of the Korean economy. KDB's management is well aware of the problem but can do little to correct it, because the salary structure of Government-owned banking institutions including KDB is uniform and is determined by the Government. In effect, KDB's management takes the correct view that the substantial number of KDB's trained officers who had left KDB to occupy positions, often prominent, in the private sector, represented yet another contribution by KDB to the Korean economy. Officers who left have been replaced by suitable officers promoted from within KDB's staff which has considerable depth. A salary increase of 12% towards the end of 1977 and another increase (between 25-30%) expected in 1978 are steps in the right direction, though they will not make KDB's salary scale fully competitive, as the private sector envisages even higher increments. In these circumstances, an annual staff turnover of 5-10% may become a normal feature, with which KDB should be able to cope without any substantial loss in its operational capacity and standards. More intensive recruitment to select suitable candidates and intensified training and other measures to increase the productivity of existing staff are under way and should ensure the continuing adequacy of both the quality and the size of KDB's staff. KDB continues to be able to attract new recruits of a high calibre from the ranks of college graduates.

3.33 KDB provides systematic in-house and external training for all staff from clerks to Executive Directors. The training courses last from two days up to four weeks and cover subjects such as: loan operations, banking, business, accounting, economics, and language courses. Additionally a number of officers were sent to various financial institutions abroad for further training. KDB intends to further intensify its staff training partly as a palliative to the high staff turnover discussed in the preceding paragraph.

Operational Policies

3.34 KDB's operations are governed by the KDB Act and Enforcement Decree, KDB's By-laws, Operating Manuals and Policy Statement (Annex 3). The latest amendment of the KDB Act in December 1977 envisages an expansion of KDB's field of operations and a broadening in the range of eligible enterprises for working capital financing, apart from an increase in the authorized

capital by W 300 billion to W 600 billion. The amendment authorizes KDB to provide working capital loans to those enterprises for which KDB has issued guarantees. It also authorizes KDB to provide the Government, banking institutions or other entities with various consultancy services such as economic and technical feasibility studies, planning, research, appraisal, guidance and other advice.

3.35 KDB's Policy Statement includes the usual financial prudence guidelines and limits. Paragraph 6(b) stipulates that KDB should not normally make equity investments in excess of either 15% of its own equity or 50% of the paid-in capital of the client companies. Excluding the Readjustment Corporation, the Saehan Merchant Banking Corporation and the Korea Industrial Leasing Co., which can be considered as KDB's subsidiaries, KDB has so far exceeded this limit in seven cases for which its financing amounted to W 122 billion (Sept. 1977). Five /1 of these seven cases are subject to the special control of the Shareholding Administration Committee /2, and governed by the KDB Shareholding Act promulgated in 1969. These arrangements appear satisfactory and there should not be any cause for concern about KDB's exceeding the above-mentioned prudence limits. KDB intends to divest itself of such holdings as soon as the financial performance of the companies concerned and capital market conditions permit. As of May 1, 1978 KDB was engaged in arranging the sale of its shares in three of the above companies.

3.36 In addition, paragraph 6 (c) of the Policy Statement provides that KDB shall not normally extend financial assistance to any single enterprise in excess of either: (a) 25% of KDB's total unimpaired paid-in capital, surplus and free reserves; or (b) 65% of the total assets of the enterprise. In 23 cases accounting for W 2,964 billion, KDB has exceeded these limits and two companies /3 account for 62% of such exceptions. About 84% of the total financial assistance extended to these 23 enterprises is in the form of guarantees and 92% of this amount is covered by the Guarantee Release Agreement (para. 3.60), under which the financial risk is assumed by the Government instead of by KDB. Given the nature of KDB's operations, exceptions to paragraph 6 (c) are unavoidable. Consequently, following consultations with the Bank and ADB, KDB is in the process of revising the paragraph in order to confine its application to those cases for which KDB assumes the financial risk and to exclude those for which the financial risk is effectively assumed by the Government.

/1 Two companies, which account for 85% of the above mentioned total are designated "Government-controlled companies" and are thus not subject to the KDB Shareholding Act.

/2 Consisting of nine members including six Cabinet ministers, KDB's Governor and two members appointed by the President of the Republic upon recommendation of the Minister of Finance.

/3 Korea Electric Co. and Pohang Iron and Steel Co.

Project Appraisal and Follow-Up

3.37 Project Appraisal. KDB's appraisal standards and procedures remain fully satisfactory. Neither the domestic loan processing officers nor their counterparts in the Foreign Loan Department appraise projects fully on their own. They draw on the Business Analysis Department for market and other project related studies and analyses, and on the Technical Services Department for technical feasibility studies (para. 3.27). This subdivision of labor is satisfactory. Projects within the jurisdiction of the branch offices are normally appraised by their personnel and forwarded to the Head Office for review and approval. KDB undertakes reasonably thorough economic analysis, including computation of the ERR,^{/1} for all projects seeking foreign exchange financing exceeding US\$750,000 irrespective of the source of financing. To enable its staff to undertake economic analysis for domestic projects (envisaged for projects exceeding W 2 billion [US\$4 million] and for which KDB takes the financial risk), further staff training is needed and is being carried out. To that end, it was suggested that KDB transfer some officers with experience in ERR analysis from its Foreign Loan Department to the Domestic Loan Departments.

3.38 Environmental Considerations. KDB's Technical Services Department is responsible for monitoring all project appraisals to check conformity with Korea's anti-pollution laws. On the basis of subproject appraisal reports reviewed by Bank staff, it is considered that environmental considerations are given due weight and consideration by KDB. Two new laws were enacted on December 31, 1977; the Environment Conservation Act and the Maritime Contamination Act. These laws are very broad in scope and cover most forms of pollution including air, water, soil and noise pollution, as well as general environmental and conservation considerations. The laws will come into force on July 1, 1978. KDB is currently reviewing these laws and intends to monitor all projects under consideration after July 1 for conformity with these laws.

3.39 Follow-Up. Follow-up work on projects is not entrusted to a separate department but is undertaken by the loan appraisal officers, either at headquarters or at the branch office level, or jointly. KDB's project supervision procedures are systematic and thorough. Compliance by clients in fulfilling quarterly reporting requirements is satisfactory. Annual audited financial statements are required for all foreign currency loans and domestic currency loans exceeding W 100 million. For problem projects, KDB frequently deputizes its own staff to serve in a managerial capacity in a client company or appoints one or more directors on the Board of the client company. Such practice has proved effective. On-the-spot inspections are made selectively including field audits of the companies' books. Overdue or insufficiently collateralized loans are transferred to the Special Loans Department working together with the Business Control Department. If foreclosure is envisaged, loans are transferred to the Readjustment Corporation (para. 3.70).

^{/1} KDB's methods of calculation of ERRs are in line with the guidelines suggested by the Bank for DFC projects as are the methods used by KDFC and MIB. KDB does not shadow price either labor or foreign exchange in the calculations of ERRs.

Procurement and Disbursement

3.40 KDB revised its procurement procedures in early 1978 to include three methods of procurement; these are international competitive bidding, limited competitive bidding, and negotiated contracts. Previously, KDB had only used international competitive bidding and negotiated contracts. Criteria for application and a summary of the revised procurement methods are as follows: (a) International competitive bidding. This is the general rule for procurement and is to be applied in every case except where methods c and b, as described below apply. Invitations to bid will be advertised for at least 45 days. These invitations are duly notified to relevant foreign embassies in Seoul; (b) Limited competitive bidding. In cases where the estimated procurement amount is less than one million US dollars, international competitive bidding will be replaced by limited competitive bidding. This requires bids to be sought from suppliers from at least three countries; and (c) Negotiated contract. This covers those special cases where a contract has for technological reasons to be negotiated with one particular supplier. This occurs for example in such cases as an expansion project where new equipment has to be compatible with existing equipment; where equipment of a unique specification is required; or where patent rights are held on a piece of equipment by a specific manufacturer. These arrangements are considered satisfactory. In 1977, under the previous arrangements, about 64% (by amount) of the procured goods were exempt from competitive bidding as against 46% in 1976. This increase, according to KDB, does not reflect a relaxation in its approach to competitive bidding, to competitive bidding, but is attributable to technical considerations such as required interchangeability of machinery in the case of expansion projects, adherence to the technology of a particular supplier, etc.

3.41 Disbursements are closely supervised and based on the progress of the project. Given this policy, regular progress reports are prepared by the Technical Services Department to assure that withdrawals are made for agreed purposes only and are in line with the project plan. At the end of the construction period, a final report is issued by the Department.

Data Collection and Processing

3.42 Since KDB is a large and complex institution, with 9 branch offices and 6 overseas representative offices, its data originate from many managerial units. Interoffice reporting requirements appear to be fragmented and to lack consistency. KDB needs an integrated data collection and management

information system. KDB's management is fully aware of the problem and is seeking remedial action. This, however, first requires a time-consuming in-depth analysis which will be undertaken in 1978 by KDB's own staff. There appears to be no need for the employment of outside consultants.

C. Operations

Scope of Operations

3.43 KDB's scope of operations, as defined in the Act, is very broad and allows it to undertake virtually every kind of transaction necessary to fulfill its developmental role, including working capital financing, issuance of bonds, borrowing of foreign capital, and transactions in foreign exchange. Some of these operations (e.g. working capital finance, demand deposits, dealings in foreign exchange), however, are restricted to those enterprises which have already obtained KDB's financing. The Act provides further that long-term loans from Government Special Funds shall be extended and administered exclusively by KDB (Art. 19). The volume of KDB's operations cannot exceed that envisaged in the annual Operational Program, which sets out quantitative targets for both KDB's financing and for raising the necessary fund (see paragraph 3.05). The Operational Program may be amended during the year, as needed, with the approval of the Finance Minister, in order to adjust these targets with KDB's actual and/or prospective performance. KDB's Operating Manuals, which are subject to approval by the Finance Minister, set out procedures, inter alia, on methods of operation, collection, underwriting, and issuing bonds. KDB's operations are carried out within this methodically planned and tightly regulated framework, which allows extensive interaction between the Government and KDB.

3.44 In the past, the volume of KDB's operations has often been constrained by the availability of domestic funds from the Government and its special funds, and from official foreign resources. Recently, however, KDB has been able to expand its resources through intensified efforts at issuing bonds in domestic and foreign currency, and in raising foreign commercial resources (see para. 3.76 onwards).

Volume of Operations

3.45 KDB's financing operations fall into three broad categories: (a) capital loans in foreign and domestic currency and working capital loans in domestic currency; (b) investments in equity shares, corporate and municipal bonds and debentures; and (c) guarantees, mostly in foreign currencies. KDB's loan, investment and guarantee operations for the past five years are shown in Annex 4, T-6, T-10 and T-12 and are summarized below:

	1973	1974	1975	1976	1977
	(W billion)				
<hr/>					
<u>Loan Commitments</u>					
Domestic currency	94.5	128.9	182.1	194.5	304.8
Foreign currency	10.6	24.3	21.0	34.1	41.4
<u>Total loans</u>	<u>105.1</u>	<u>153.2</u>	<u>203.1</u>	<u>228.5</u>	<u>346.2</u>
<u>New Investments</u>					
Equity shares	3.0	10.7	69.4	40.8	63.0
Bonds and debentures	0.9	1.7	4.8	4.7	10.5
<u>Total investments</u>	<u>3.9</u>	<u>12.4</u>	<u>74.2</u>	<u>45.5</u>	<u>73.5</u>
<u>Guarantees Issued</u>					
Domestic currency	16.8	0.3	11.1	35.7	60.8
Foreign currency	296.9	689.6	540.0	1,310.8	1,035.6
<u>Total guarantees</u>	<u>313.7</u>	<u>699.9</u>	<u>551.1</u>	<u>1,346.5</u>	<u>1,096.4</u>
<u>Total commitments</u>	<u>303.0</u>	<u>422.7</u>	<u>865.5</u>	<u>1,620.5</u>	<u>1,516.1</u>

3.46 The volume of KDB's lending operations in 1977 was W 346.2 billion (US\$714 million), an increase of 51% over the 1976 level which itself was 13% greater than the 1975 level. Domestic currency lending has increased by 57% since 1975 while foreign currency lending has increased by 97%. Foreign currency lending constituted 12% of KDB's lending in 1977 as opposed to 10.4% in 1975. The composition of KDB's domestic currency lending in 1977 was 81% term capital loans and 19% working capital loans as opposed to 79% term loans and 21% working capital loans in 1975. Loan disbursements have kept pace with loan approvals and amounted to W 343.5 billion as of December 31, 1977. Loans outstanding (3,157 by number) as of that date amounted to W 1,008 billion (US\$2.08 billion).

Characteristics of Lending Operations

3.47 A summary of KDB's loan commitments for the years 1975 through 1977 and an analysis of outstanding loans as of September 30, 1977 is shown in Annex 4, T-6, T-7, T-8 and T-9. Foreign currency loans outstanding have risen to 11.3% of KDB's portfolio from 8.5% at end-1975. The share of the private sector in annual loan commitments increased from 42.2% in 1975 to 70.9% in value terms, and to 92.7% by number of companies in 1977. The share of the private sector in KDB's outstanding portfolio as of September 30, 1977 is now 46.4% as compared with 37.7% at the end of 1975. About 18.7% of KDB's borrowers to date have been engaged in new projects, accounting for about 13.8% of KDB's total loans (by number). Loans over W 800 million (US\$1.6 million) accounted for 57.9% of total commitments in 1977, down from 66% in 1975.

3.48 The geographic distribution of loans seems to have reverted to a normal pattern with Seoul and Busan, the predominant industrial areas, absorbing 42.5% of all loans after a temporary peak of 50.6% ^{/1} in 1976 compared with 42% in 1975. The manufacturing sector accounted for 67.2% of loan commitments in 1977 compared with only 48% as recently as in 1975. Mining and transportation still account for about 43% of KDB's total outstanding portfolio. The share of the capital goods industry has increased from 22% in 1975 to 38.6% in 1977 with the machinery industry accounting for 8.3% as against 3.5% in 1975. The foregoing indicates that the sectoral pattern of KDB's lending has reflected closely and promptly the recent shifts in Government industrial policies.

3.49 The average duration of capital (term) loans has increased from 7.4 to 8 years, weighted by the number of loans, and from 8.8 to 9.7 years weighted by amounts, for the years 1976 and 1977 (Sept.) respectively. The majority of KDB's working capital loans as of September 30, 1977 have maturities exceeding 2 years, namely, 65.9% by number and 58.5% by amount. However, KDB has lately made working capital loans with shorter maturities with almost 46% of these loans made in 1977 having a duration of up to one year only.

3.50 Loans Made at Government's Behest. As the principal financier of both the private and the public sector, KDB also extends financial assistance to some companies in the public sector, at the behest of the Government, rather than on its own initiative, and without an independent appraisal. The Government agreed in connection with the second Bank loan (No. 1338-KO) to relieve KDB of the financial risk pertaining to the four companies shown below:

	Amount outstanding as of Sept. 30, 1977 (W millions)
1. Korea Electric Company	251,299
2. Korea National Railways	83,029
3. Korea Coal Corporation	11,499
4. Korea Highway Corporation	7,059
<u>Total /a</u>	<u>352,886</u>

/a Total loans outstanding are as indicated in KDB's audited balance sheet.

/1 This percentage is somewhat misleading, as it includes substantial lending to KECO with its head office in Seoul.

Investment Operations

3.51 A summary of KDB's investment operations from 1974 through 1977 is shown in Annex 4, T-10. Total investments in 1977 were W 73.5 billion and KDB's investment portfolio stood at W 240.6 billion (US\$496 million) as of December 31, 1977. Equity investments in 42 companies accounted for 91% of the total investment portfolio as of September 30, 1977, the remainder consisting of bonds and debentures.

3.52 Equity Investments. KDB's equity portfolio increased in 1977 from W 160.2 billion to W 217.4 billion almost exclusively as a result of share subscriptions in cash (W 61.0 billion) while loan conversions contributed only W 2.0 billion. The Government did not transfer any shares to KDB in 1976 and 1977, in line with an understanding reached between the Government, KDB and the Bank at negotiations for the previous Bank Loan. Almost all additional investments during this period were made at par value or below par and only in a few exceptional cases exceeding par value but within book value. KDB's restrictive policy towards loan conversion is reflected in the fact that there were only two such cases /1 during the 1976-77 (Jan.-Sept.) period. The amount involved accounted for 5.6% of total equity investments in 1976 and a negligible 1.7% in 1977. Recent market quotations and market value estimates indicated that current market prices exceed the original purchase prices of shares held by KDB by a considerable margin. /2

3.53 Annex 4, T-11 presents an analysis of KDB's equity investments for the period 1975-1977 (Jan. - Sept.) and for the portfolio outstanding as of September 30, 1977. KDB has invested 87% (by amount) of its total outstanding portfolio (42 companies) in 24 companies in the public sector. Investments in the capital and intermediate goods industries account for about 38% and 28% of the portfolio respectively while the nonmanufacturing industry accounted for 32%. Since 1977 KDB carries one investment in foreign currency (Korea Associated Securities Inc., New York) (para. 3.19).

3.54 Ownership and Shareholding Administration Fund. The financial prudence limits in its Policy Statement require KDB normally not to invest more than 50% in the share capital of any single enterprise. In 9 out of the 42 companies KDB has exceeded the limit; however, 3 of these are KDB's subsidiaries. /3 Of the remaining six cases, five are controlled by the Shareholding Administration Fund (SAF) while the remaining company, accounting for 68% of

/1 Only a portion of total loans outstanding of two companies was converted into equity: namely W 2.2 out of 5.0 billion to Korea Airlines (1976) and W 0.9 out of 2.5 billion to Dong Lip Ind. Dev. Co. in 1977.

/2 e.g. Quotation for Korea Airlines shares on September 30, 1977: W 15,167 (purchase price: 2,200).

/3 These companies are: Korea Industrial Leasing Co., Readjustment Corporation and Saehan Merchant Banking Co. The ownership pattern of the latter has changed in the meantime, with KDB holding 35% of the share capital only.

total exceptions, is governed by a special law.^{/1} About 15% of KDB's holdings in these companies result from share transfers by the Government. The KDB Shareholding Act ^{/2} governs all so-called "KDB-invested enterprises," i.e., companies in which KDB holds more than 50% of the share capital. The Act, inter alia, provides for the Shareholding Administration Committee (SAC) (see para. 3.35), which controls the "KDB-invested companies," and for the SAF, an autonomous fund with separate accounting. Proceeds from the sale of shares, dividends, loan collections, and interest on loans and operational profits arising from "KDB-invested enterprises" accrue to the SAF, and are used to make capital and operating loans to both KDB-invested and other enterprises.^{/3} As of June 30, 1977, total working capital loans outstanding amounted to W 7.9 billion and total outstanding capital loans to W 1.1 billion. So far the KDB Shareholding Act has proved effective by providing for a close control over the companies concerned in particular through the SAC.

3.55 Sales of Investments - During 1977 (Jan. - Sept.) KDB sold part of its shareholdings in several listed companies and realized a profit of W 4.8 billion (W 4.9 billion in 1976). Total capital gains represent 138% of the original cost (40% in 1976). All sales in 1977 were either to private individuals or companies on a cash basis in contrast to 1976, when 92% was made on installment basis. Capital gains on investments sold accounted for 44% of total income from KDB's investment portfolio (49% in 1976). Average return ^{/4} of KDB's equity portfolio was 6.0% in 1977 as against 5.9% in 1976 and 3.8% in 1975.

3.56 Bonds and Debentures - In 1977 KDB invested W 10.5 billion in the purchase of bonds and debentures, while W 4.8 billion were sold or redeemed. Consequently, KDB's portfolio increased by 35% from W 17.5 billion in 1976 to W 23.2 billion. Municipal bonds, subscribed by KDB at the behest of the Government,^{/5} accounted for 72% (W 15.2 billion) of the portfolio as of September 30, 1977. Interest income from bonds and debentures was 8.3% in 1977 as compared with 8.6% in each of the previous two years.

Guarantee Operations

3.57 A summary of KDB's guarantee operations for the years 1974 through 1977, and an analysis of KDB's portfolio of guarantees as of September 1977 are shown in Annex 4, T-12 and T-13. The overwhelming bulk (98%) of KDB's guarantees is in foreign exchange. KDB's guarantee portfolio stood at

^{/1} The "Government-invested" company - Korea General Chemical Co. (see para. 3.35).

^{/2} Promulgated in 1969.

^{/3} Since 1976 only operational loans were extended.

^{/4} Including dividend income and capital gains realized.

^{/5} Usual terms: 7.5% interest and 20 years maturity including 5 years of grace.

W 3,278.8 billion (US\$6.7 billion) as of December 31, 1977, about 3.3 times its outstanding loan portfolio and an increase of 120% over the outstanding guarantee portfolio as of December 31, 1975. With the Korea Exchange Bank, KDB is the major source for foreign currency guarantees. KDB's guarantee portfolio as of September 30, 1977 is estimated to represent almost 41% of Korea's total external medium- and long-term debt. KDB's guarantee portfolio is virtually free of arrears (para. 3.73) and constitutes a major source of income though the average fee does normally not exceed 0.5% p.a.

3.58 Analysis of Guarantee Operations. The share of domestic currency guarantees has decreased to 2.1% in 1977 from 9.5% in 1975. The share of the private sector in KDB's outstanding portfolio, as of September 30, 1977 increased from 40% in 1975 to 51.1% in 1977 (66% by number of companies). Correspondingly, the value of commitments to the public sector decreased by around 66% in 1977 compared with 1976. In the light of this development KDB's guarantee business is expected to grow less vigorously than in the past even though guarantee commitments to the public sector are prone to considerable fluctuations. An increasing portion of guarantees, amounting to almost 40% in 1977 against 16.5% in 1975, was issued to new projects. During 1977 the average size of guarantees issued for private sector enterprises has increased substantially from W 1.6 billion in 1976 to W 4.3 billion.

3.59 Ten out of a total of 129 companies accounted for almost 74% of KDB's total guarantee portfolio outstanding as of September 30, 1977 of which the largest two /1/ alone accounted for 47%. Guarantees exceeding W 2 billion (US\$4.1 million) represented 92.5% of KDB's guarantee portfolio, a slight reduction over 1976 (95%). The weighted average duration of guarantees has also come down slightly from 9.8 years in 1976 to 9.5 years. The manufacturing sector absorbed only 48% of total guarantees issued in 1977, as against 82% the year before, on account of sizeable guarantee commitments to Korea Electric Co. (nonmanufacturing) in 1977 (47% of total). Article 25 of the KDB Act sets a ceiling on KDB's guarantee operations, /2/ at 10 times its paid-in capital and reserves. As of September 30, 1977 the total of KDB's outstanding guarantees was close to that ceiling (see para. 3.66).

3.60 Guarantee Release Agreement (GRA). In conjunction with the first Bank loan, the Government agreed to assume the financial risk for all foreign guarantees issued or to be issued for those enterprises controlled by the Government and for priority enterprises as defined in the KDB Act. As of September 30, 1977, about 86% (W 2.7 trillion) of KDB's total outstanding guarantee portfolio was covered under the GRA.

Utilization of Bank Loan No. 1338-KO

3.61 As of March 31, 1978, KDB and KILC have committed US\$45.3 million and US\$6.3 million respectively of the loan proceeds (US\$82.5 million) for 37 subprojects (10 A-projects and 17 B-projects) and 34 subprojects

/1/ Korea Electric Co. and Pohang Integrated Iron and Steel Company.

/2/ The ceiling includes also the outstanding balance of industrial finance debentures and bonds and debentures guaranteed by KDB.

respectively. As of the same date, US\$14.9 million and US\$3.3 million have been disbursed on KDB's and KILC's portions of the loan. KDB's subloans ranged in size from US\$377,000 to US\$5 million with an average of about US\$1.9 million, while KILC's average lease amount was US\$165,000, ranging from about US\$25,000 to US\$0.5 million. As of September 30, 1977, the machinery, metal and chemical industries accounted for 34% and 19% each of KDB's total approvals under the Bank loan. KDB contributed about US\$42 million or about 25% to the financing of its clients' total project costs of about US\$168 million, with foreign currency requirements accounting for about 41%. All but two of these projects were for capacity expansion. The 24 projects financed by KDB under the loan are expected to generate 7,100 jobs, at an average cost per job of about US\$24,000. /1 The internal financial rates of return on these projects range from 15% to 30% with an average of 22%, the ERRs from 21% to 46% with an average of 30%.

D. Financial Position, Performance and Resources

Financial Position

3.62 Assets. Summarized balance sheets for the years 1974 through 1977, are shown in Annex 4, T-15. During this period, total assets have steadily grown by an annual average of about 30% to W 1,420 billion (US\$2.9 billion) as at December 31, 1977. KDB's loan and investment portfolios account for around 71% and 17% respectively of total assets (excluding guarantees).

3.63 Liabilities and Equity. Of total assets as of December 31, 1977, 25.7% were financed by equity, 60.2% by long-term liabilities /2, and 14.1% by current liabilities. Borrowings in domestic currency (W 651.7 billion) accounted for 68% of total long-term liabilities, /3 of which 10.0% has been raised through the issue of IFDs (8.2% in 1976). The proportion of foreign currency borrowings (W 274.0 billion) has steadily increased from 17.3% of total long-term resources as of December 31, 1974, to about 29% in 1977. This development is mainly attributable to KDB's successful efforts to raise additional foreign commercial funds to complement its resources available from international institutions. Time deposits have become a negligible resource item accounting for 2% of total long-term resources. Current liabilities /4 increased significantly in 1977 by W 89 billion after a slight decrease in 1976 compared with 1975; the principal reasons for the increase in 1977 were a 70% increase in the level of short-term deposits and an 84% increase in the current portion of long-term debt.

/1 The discrepancy between the average cost per job of projects financed under the Bank loan (US\$24,000) and the US\$18,000 for KDB's projects as a whole, is attributable to the fact that KDB's foreign currency lending generally goes to larger, more capital-intensive projects, than in the case of domestic currency financing.

/2 Excluding current portions.

/3 Including current portions.

/4 Including current portions of term debts accounting for about 51% of current liabilities.

3.64 During negotiations for the second Bank loan, KDB undertook to cause its auditors to carry out an account-by-account review of its portfolio in order to establish the appropriate amount of provisions for doubtful loans. Until then, KDB did not show provisions as a separate item on its balance sheets. For the first time and as a result of the analysis, KDB has made provisions totalling W 12.8 billion in its balance sheet as of December 31, 1976. Of the total, W 10.1 billion was transferred from legal reserves and the remaining W 2.7 billion was charged against current income.

3.65 Liquidity Position. KDB's current ratio dropped perceptibility from 2.0 in 1976 to 1.3 in 1977. However, the 1977 accounts are unaudited and are based on a cash rather than on accrual basis; current assets are accordingly understated and KDB expects that the December 31, 1977 current ratio will be about 1.7. This decline compared to 1976 is principally due to the decreases in short-term deposits and the current portion of long-term debts discussed in para 3.63. The ratio and KDB's liquidity remains fully satisfactory. Over the past two years, KDB has also been successful in matching maturities of assets and liabilities with the result that the debt cover ratio has improved from 1.3 in 1975 to 1.6 in 1977.

3.66 Debt/Equity Ratio. The KDB Act limits KDB's outstanding guarantees and IFDs to ten times its equity (para. 3.59); as of September 30, 1977 the ratio stood at 9.4:1. KDB's long-term debt/equity ratio, as defined in the Bank's loan documents stood at 3.7:1 as of December 31, 1977, well within the agreed limit of 5:1. /1 This ratio would have been ever lower if the Government's capital subscription had been W 25 billion as planned instead of W 5 billion during 1977. The Government subscribed the remaining W 20 billion on January 1, 1978.

Financial Performance

3.67 Summarized income statements and cash flow statements for the period from 1974 through September 1977 and indicators of financial performance are shown in Annex 4, T-14, T-16 and T-17. KDB's profitability over the period 1974-76 should be considered as modest, averaging 1.8% of total assets and 5.5% of net worth, but has shown a steady improvement. Based on the unaudited income statements 1977 KDB's profitability has increased further to about 2.4% of total assets and 8.3% of net worth. These ratios, however, are somewhat understated since they are not based on accrued income. Some factors which have contributed to this improvement are: (a) increased income from investments (dividends as well as capital gains); and (b) substantially higher income from guarantee operations. Administrative expenses, on the other hand rose slightly from 1.0% of total assets in 1975, and 0.8% in 1976 to 1.1% of total assets in 1977; administrative expenses remain fully under control and are low compared to comparable institutions. During 1977, KDB's spread /2 remained constant at about 1.1% compared with 1.2% in 1976.

/1 Debt as defined excludes guarantees covered under the Guarantee Release Agreement.

/2 Defined as income on loan portfolio as percentage of average loan portfolio minus cost of term debt as percentage of average term debt.

3.68 KDB's income would have been higher in 1976 but for a provision of W 3.0 billion for foreign exchange losses on Industrial Rationalization Fund (IRF) loans. Under the IRF agreement, KDB has received funds (e.g., from USAID) through the Government, or borrowed directly from OECF and Export-Import Bank of Japan. These funds are denominated in foreign exchange but on-lent by KDB in won. To be protected against the exchange risk, KDB had to make the above-mentioned special provision which (until 1975) was limited to 1.5% of the average outstanding borrowings under the IRF, with any losses due to exchange rate fluctuations in excess of this reserve to be compensated by the Government. Since the interest rates borrowers have to pay were raised in September 1975 from 8% to 12%, and to 13% and 14% in August 1976, KDB's spread on borrowings from the IRF increased proportionately while borrowing rates remained unchanged. To limit KDB's net spread on IRF borrowings to its original level of around 3% the Government decided that KDB should assume a greater share of the potential exchange risk and the provision was raised to 6.5% of outstanding borrowings from the IRF. Total provisions increased accordingly from W 767 million (1975) to W 3,307 million in 1977. Actual foreign exchange losses in excess of these provisions would still be assumed by the Government.

Portfolio Quality and Provisions

3.69 Loan Portfolio. A summary of KDB's loan and guarantee portfolio in arrears for the years 1974 through September 30, 1977 is given in Annex 4, T-18 and T-19. As of the latter date, about 88% (493) of KDB's 563 borrowers were operating profitably, 6.4% had their projects still under construction or in the pre-operating phase, 4.4% (25) were operating at a loss without being in serious technical or financial difficulties and only 9 clients, or 1.6% by number, were facing serious problems. As of the same date, 51 clients had arrears of principal and interest, amounting to 2.1 billion or 0.2% of KDB's total loans outstanding; only a few of them, however, were in default for more than three months. During 1977 the number of clients in arrears increased from 33 to 51 and the amount of principal and interest in arrears from 0.1% (1976) to 0.2% of the total portfolio outstanding. The total portfolio affected by arrears increased from W 6.6 billion or 0.9% as of December 31, 1976, to W 45.5 billion or 5.2% as of September 30, 1977. However, about 66% of KDB's arrears or 90% of the affected portfolio fall into the less-than-three-months category. Working capital loans accounted for 50% of the portfolio affected by arrears. In fact, provisional figures as of December 31, 1977 indicate that the percentage of the portfolio affected by arrears at year end 1977 has fallen back to only 1.4%. Debt collection has been highly satisfactory, averaging around 97% over the past three years (see Annex 4, T-20). KDB's loan portfolio remains very sound, reflecting the quality of KDB's appraisal and supervision work as well as the continuing strong performance of the Korean economy. Furthermore, for those loans made by KDB to public sector enterprises at the Government's behest (para 3.50), representing about 40% of KDB's outstanding portfolio, the Government rather than KDB assumed the financial risk.

3.70 The Readjustment Corporation (RAC). The RAC was established by KDB in 1962 as a wholly owned subsidiary, with the objective of realizing KDB's and other banking institutions' claims through foreclosure or disposal of property. As of December 31, 1976, KDB's claims against the RAC totalled W 10.3 billion, of which around W 1 billion was not yet settled (September 1977). During 1976, KDB transferred to the RAC loans amounting to W 0.4 billion while the RAC collected some W 2.2 billion on KDB's behalf; no significant transfers have taken place during the first nine months of 1977. KDB's total claims include W 1.6 billion for doubtful accounts, as identified by its auditors on an account-by-account analysis, which are fully covered by provisions.

3.71 Reschedulings. KDB's rescheduling of loans during the past four years is given in the following table (W billion):

	1974	1975	1976	1977 (Jan.-Sept.)
Principal Amount Rescheduled	19.7	45.7	48.7	35.5
(Of which due at time of rescheduling)	(17.4)	(29.1)	(30.9)	(28.1)

Projects requiring loan rescheduling are normally reappraised first to determine whether they are still viable. During 1977 (January-September), KDB rescheduled several loans to 19 borrowers (W 35.5 billion), representing about 4% of the outstanding portfolio in comparison with 1976, when 6.6% of the portfolio (W 48.7 billion) had been rescheduled. The public sector accounted for W 20.5 billion or 58% of total reschedulings. Loans to one company,^{/1} amounting to W 15.6 billion (44% of the total), had to be rescheduled for budgetary reasons.^{/2} Most of KDB's reschedulings are for working capital loans (rescheduled for the first time). They appear by and large justified, and moderate in relation to the size of the portfolio.

3.72 Provision for Doubtful Accounts. As of September 30, 1977, KDB's total loans affected by arrears, transferred to the RAC and rescheduled represented about 9% (W 81 billion) of the outstanding loan portfolio for which provisions of W 12.8 billion have been made (para. 3.64). This level of provisions is more than adequate in the light of the good quality of the portfolio.

^{/1} Pohang Iron and Steel Company Ltd.

^{/2} No allocation was made in the Government budget, against an original intention to provide for the required amount in the budget; this is not expected to re-occur in 1978.

3.73 Guarantee Portfolio. As of September 30, 1977, KDB had issued guarantees to 129 companies, totalling W 3,153.7 billion (US\$6.5 billion), of which W 2,296.2 billion (73%) was covered under the GRA. Two companies alone accounted for 47.3% of the total. Of the 129 companies, 98 (76%) operated profitably, 19 (15%) were not yet fully operational, and 8 were facing some operational/financial problems. Seven clients were in arrears, amounting to W 1.6 billion (W 1.58 billion of principal and W 32 million of overdue fees) or 0.1% of KDB's total guarantee portfolio outstanding; the portfolio affected by arrears accounted for 1.5% (W 45.7 billion) of the total guarantee portfolio. In all cases but one (W 200 million), clients were in arrears for less than three months. Two guarantees (outstanding W 4.1 billion) with arrears amounting to W 268 million were covered under the GRA; the Government has been notified. During 1977, one guarantee in arrears (W 143 million) was transferred to the RAC. As with its loan portfolio, KDB's portfolio of guarantees remains very sound.

3.74 Equity Portfolio. As of September 30, 1977 KDB had invested W 211.9 billion in 42 companies, of which 20 were operating profitably, 8 with marginal profits, 6 were not fully operational, 3 were problem projects but with good prospects for improvement, and 5 were problem projects requiring close supervision. Listed stocks accounted for around 20% of KDB's equity portfolio as of December 31, 1977. According to KDB's estimates, its total equity portfolio of W 160.2 billion as of December 31, 1976 represented a market value of some W 201.1 billion. In the light of the increased dividend yield of 3.4% (2.5% in 1976), and the high capital gains realized (138% of cost) KDB's equity portfolio can be considered very sound. The average return on equity investments (dividends and capital gains) has increased from 3.8% in 1975 to 6.8% in 1977.

Audit

3.75 KDB's accounts are audited, in accordance with Korean practice, by an internal auditor appointed by the shareholders who is at the same time a non-voting member of KDB's Board. In addition, KDB has its accounts audited by external auditors. Both in 1975 and 1976, San Kyong & Company, KDB's auditors, (a firm acceptable to the Bank), have issued unqualified reports.

Resources

3.76 KDB's resource position as of December 31, 1977 is shown in Annex 4, T-21; terms and conditions of long-term borrowings as of the same date are summarized in Annex 4, T-22. KDB's resources totalled W 1,397.5 billion (US\$2.88 billion), including W 1,174 billion (or 84%) for domestic currency long-term financing, W 153.0 billion (11%) for foreign currency lending; and W 70.5 billion (5%) for short-term financing. Of the total domestic currency resources, W 160.1 billion was raised in foreign currency but on-lent by KDB in domestic currency with maintenance-of-value clause. The adequacy of KDB's resource mobilization efforts is discussed in paras 3.21 to 3.23.

3.77 As of December 31, 1977, KDB had W 47.7 billion (4.1% of total domestic currency funds) resources available for commitments in domestic currency, and W 13.8 billion (19% of total funds) for commitments in foreign currency. Of total short-term funds around 72% had been committed and 27% (W 18.8 billion) was available for additional commitment. On the face of it, KDB's resource position seems tight. KDB, however, is not expected to face any serious resource constraints in the near future because of the availability to it of: (a) the increase in its capital of W 20 billion on January 1, 1978 (para 3.66) and the additional Government and NIF funds earmarked for KDB in 1978 Operational Program (W 284 billion); and (b) prospective overseas borrowings, including the proposed Bank loan, a new loan from ADB (US\$50 million), and a fully subscribed DM-bond issue (US\$48 million equivalent) in the German market (concluded in December 1977).

3.78 Domestic Currency Resources. KDB's equity continues to be its largest single source of domestic funds, accounting for 26.1% of total resources (30% as of December 31, 1976). During 1977, the Government contributed W 5 billion (W 71.7 billion in 1976) in cash to KDB's capital, while the other W 20 billion expected under the 1977 Operational Program was not paid in until January 1, 1978. To allow for additional capital contributions in the future, the KDB Act was recently amended (para. 3.34) to increase KDB's authorized capital from W 300 to 600 billion.

3.79 NIF. Borrowings from the National Investment Fund (NIF), amounting to W 298.3 billion or around 21% of total resources, constitute KDB's second largest domestic source of funds. Interest charges of between 13% and 14%, depending on the duration of loans, give KDB a 1.5% spread. The NIF, which is under the jurisdiction of the Ministry of Finance, /1 derives its funds from direct Government contributions, sale of NIF-bonds to National Savings Associations, Welfare Pension Fund System, Postal Insurance and Trust Companies and others, and from repayment of loans. Though KDB receives its allocations on an annual basis, disbursements are based on individual projects.

3.80 With W 202.2 billion or 14.5% of total resources (14.5% in 1976), borrowings from the Government have been another major source of funds. The interest charged to KDB ranges from 2-15% with a weighted average of 6.1%. The funds derive from two major sources: (a) USAID counterpart funds, /2 bearing very low interest rates; and (b) the Economic Development Fund, with relatively high interest rates. Allocations for the latter are made on the basis of specific projects.

3.81 Loans from the Tourism Development Funds have increased from negligible W 325 million in 1976 to W 4,760 million.

/1 Policy decisions are made by the NIF Management Council; the fund is managed, however, by BOK.

/2 Duration 10-35 years with 5 years grace period; no new loans have however been made by the Government to KDB during the past few years.

3.82 Industrial Rationalization Fund (IRF).^{/1} This fund was created in 1972 to provide financial assistance on preferential rates (8%) to priority industries. Its resources consist of W 55.1 billion of borrowings from the Government and outstanding IFDs of W 3.7 billion. Government funds lent to IRF consist of USAID counterpart funds, and the Japanese OECF and Ex-Im Bank funds which have dollar/yen maintenance of value clauses and entail an exchange risk for KDB of up to 6.5%, ^{/2} for which KDB has made provisions.

3.83 Time deposits and revolving funds contributed only 0.9% to KDB's total resources. The latter originate from subloan collection exceeding KDB's own repayment obligations of USAID and KfW loans with fixed repayment schedules. KDB avoids foreign exchange losses from this operation by speeding up the on-lending of these funds and/or by converting them temporarily into foreign currency.

3.84 Industrial Finance Debentures (IFDs). KDB issues two to three year industrial finance debentures, both to augment its resources and to stimulate capital market development. Issuance of IFDs by KDB requires the approval of the National Assembly, as repayment of IFDs is guaranteed by Government. KDB intends to rely increasingly on IFDs with gradually longer maturities, to the extent that market conditions permit. During 1977 total domestic currency IFDs outstanding have increased by W 57.3 billion to W 95.3 billion.^{/3} IFDs are presently issued at nominal interest rates of 12% and 13% depending on duration. Their effective cost to KDB, however, is higher as interest is payable one year in advance. Given a maximum interest rate of presently 16% chargeable by KDB, (for instance, for working capital loans) the use of these resources is unlikely to be profitable, even though KDB is compensated ^{/4} by the Government for losses relating to Government designated projects.

3.85 Foreign Currency Resources. As of December 31, 1977, KDB's total foreign currency resources amounted to W 313.1 billion (US\$645 million), not including the fully subscribed DM 100 million (approximately US\$48 million bond issue ^{/5} of December 1977. KDB was particularly active in raising

^{/1} Administered by KDB.

^{/2} Losses in excess of 6.5% are assumed by the Government (see para. 3.68).

^{/3} Including W 3.7 billion IFDs issued on the account of the IRF.

^{/4} In 1976 KDB obtained compensations of W 185 million on claims of W 198 million.

^{/5} The bond issue, at par (7.25% interest, 7 years' duration) has been arranged by Deutsche Bank as the Manager of the Consortium.

funds from the foreign capital market in 1976, for a total of W 84.7 billion (US\$171.5 million) from: (a) a 5-year Eurodollar loan of US\$80 million, of which about US\$39 million had been drawn as of September 30, 1977; (b) a 7-year loan of Y 25 billion (US\$17 million) from a Japanese banking consortium; and (c) issuance of foreign currency IFDs of three to five year maturities for US\$25 million in Abu Dhabi, and for US\$24.5 and US\$25 million, respectively in the Eurodollar and Asiandollar market. Some of KDB's foreign commercial funds, namely, W 160.6 billion or almost 51% of KDB's total foreign currency resources, have been relent in domestic currency with a maintenance of value clause. To minimize the exchange risk on undisbursed funds, KDB keeps temporarily compensating balances in foreign currency. As of January 1, 1978, the Government has instructed KDB not to onlend foreign commercial funds in domestic currency because of the effect of this action in increasing the money supply. During 1977 (Jan.-Sept.) KDB suffered a small foreign exchange loss of W 1.1 million (US\$2,270). In addition to its commercial borrowings, KDB obtained in 1976 its second Bank loan (US\$82.5 million) and a DM 20 million loan from KfW of Germany. In 1977 KDB raised US\$71.7 million in foreign IFDS.

E. Prospects and Resource Requirements

Business Projections

3.86 As discussed in para. 1.13, the outlook for the Korean economy in general and the manufacturing sector in particular is bright. GNP is expected to grow at an annual rate of 9.2% fueled by a 16.5% annual growth in the volume of manufactured exports between 1977 and 1981. The manufacturing sector as a whole is expected to grow at about 14% per annum in the period. In order to sustain the projected GNP growth rate of 9.2% p.a., gross fixed investment will need to rise at 7.8% p.a. between 1977 and 1981.

3.87 KDB has projected its future level of operations by examining both the total level of funds, domestic and foreign, that it believes it could obtain and the share of gross fixed capital formation in Korea that it believes it could finance. KDB has calculated a time series formula for the total level of resources available to it in each year since 1971 and used this to forecast future fund availability in the light of the 1978 Operational Program (see paras. 3.05 and 3.43) and the prospects for the economy. On the basis of making approvals each year at a level equal to its forecast fund availability, KDB's share of gross fixed capital formation would increase from 11-12% in 1977 to about 15% in 1981. This level is thought by KDB to be attainable and therefore the fund availability method has been used by KDB in projecting its future level of total operations.

3.88 The average level of annual investment approvals including the underwriting of municipal and corporate debentures was 15.5% of total business volume in the last five years. However, as it is KDB's policy to gradually phase out investments in excess of the ceiling under the Policy

Statement (see para. 3.35), annual investment approvals are only forecast at 10% of total operations. Thus loan approvals are forecast at 90% of total projected operations. Working capital loan approvals have averaged 12.2% of total fund supply over the past five years but are projected to average 15% in the next five years because of the projected high demand for these funds. Capital (i.e. equipment) loans are therefore forecast at 75% of total operations and the share of foreign currency loans to total capital loans is expected to rise by 1% per year from 12% in 1978 to 16% in 1982. The 1978 projections are based on the 1978 Operational Program.

3.89 A summary of projected operations is shown in Annex 4, T-23. Total commitments are expected to increase from W 453 billion (US\$934 million) in 1978 to W 778 billion (US\$1.6 billion) in 1982 - an average annual increase of 14.75%. Foreign loan commitments are expected to increase from W 48 billion (US\$99 million) in 1978 to W 93 billion (US\$192 million) in 1982 - an average annual increase of 18%. Domestic currency commitments are expected to rise from W 405 billion (US\$835 million) in 1978 to W 685 billion (US\$1.41 billion) in 1982 - an average annual increase of 14%. The breakdown of projected domestic currency commitments in 1978 is 85% equipment loans, 6% working capital loans and 9% equity investments while the breakdown in 1982 is expected to be 71% equipment loans, 17% working capital loans and 12% equity investments. The level of operations projected by KDB appears to be realistic and attainable. As in the past, the actual level of KDB's operations will continue to be determined by resource availability rather than restricted by a lack of demand for capital. KDB's five-year projections should be regarded as a highly tentative long-range planning exercise, undertaken partly in order to comply with the requirements of KDB's institutional lenders (e.g. ADB and IBRD). KDB's actual planning consists of its annual Operational Programs (para 3.05) which, in spite of its relatively short time frame (one year), represents an effective tool for KDB and the Government to plan ahead reasonably firmly for both KDB's financing and its resources.

Resource Requirements

3.90 To meet its forecast commitments KDB plans to borrow a total of W 2,673 billion (US\$5.5 billion) between 1978 and 1982. Domestic currency borrowings are projected at W2,035 billion (US\$4.2 billion or 76% of total borrowings) and foreign currency borrowings at W 638 billion (US\$1.3 billion or 24% of total borrowings). KDB's annual projected borrowing program is shown in the table below:

BORROWINGS PROGRAM TO MEET FORECAST COMMITMENTS, 1978-82
(Million won)

	1978	1979	1980	1981	1982
<u>Domestic Currency Borrowings</u>					
Borrowings from Government	83,010	94,612	109,534	128,441	152,129
National Investment Fund	143,500	172,200	206,640	247,968	297,562
Industrial Finance					
Debentures (Domestic)	70,000	75,000	80,000	85,000	90,000
<u>Total</u>	<u>296,510</u>	<u>341,812</u>	<u>396,174</u>	<u>461,409</u>	<u>539,691</u>
<u>Foreign Currency Borrowings</u>					
Commercial sources	48,400	55,000	60,000	65,000	70,000
Official sources	111,640	32,600	66,489	95,520	42,600
<u>Total</u>	<u>160,040</u>	<u>87,600</u>	<u>126,489</u>	<u>160,520</u>	<u>112,600</u>
<u>Total borrowings</u>	<u>456,550</u>	<u>429,412</u>	<u>522,633</u>	<u>621,929</u>	<u>652,291</u>

3.91 Borrowings from both the Government and the NIF are expected to increase by 18% per year, reflecting the increasing demand for investment during the Fourth Plan period, and will total W 617 billion (US\$1.27 billion) and W 1,068 billion (US\$2.2 billion) respectively. In addition KDB plans to raise W 400 billion (US\$825 million) through the issuance of domestic IFDs; this represents 20% of KDB's projected domestic borrowings in the period 1978-82. KDB's plans for domestic resource mobilization efforts are satisfactory. Furthermore an amount of US\$615 million or 46% of KDB's foreign exchange borrowings are expected to be raised from commercial sources as opposed US\$715 million or 54% from official sources; this level of private foreign resource mobilization is also considered satisfactory. The actual amount of foreign commercial borrowings that KDB would be able to raise will, of course, depend on Korea's continued creditworthiness and the situation of the international capital markets. More specifically, it will depend on the Government's decision regarding the appropriate amount of foreign commercial funds which KDB is allowed to raise in any given year, within the framework of the overall inflow of such funds into Korea for the year. Besides borrowings, KDB's resources are expected to be supplemented by an increase in its capital of W 236 billion (US\$486 million) between 1977 and 1982 and by retained earnings of W 294 billion (US\$606 million).

3.92 In late April 1978, KDB was involved in arranging a foreign commercial syndicated loan of US\$300-US\$500 million, at terms and conditions still to be determined. The proceeds of the loan are to be allocated to KDB, the Korea Exchange Bank and some Korean commercial banks and it is yet unclear how much of this loan KDB will receive. \$100 million is the present best estimate. KDB

has also already raised in 1978 a foreign bond issue of US\$43 million (equivalent) in Japan and has received a US\$100 million loan from the Korean Government's official foreign exchange reserves. Together with its planned borrowings from all official sources, the net effect of the above described arrangements will be an increase of about \$93 million in KDB's foreign borrowings in 1978 over the planned borrowing program shown in para 3.90. /1 KDB believes that it will be able to increase its foreign lending in 1978/79 accordingly and the current strong demand for import financing suggests that KDB's plan is feasible. /2

3.93 As mentioned in para 3.85, KDB is now no longer permitted to onlend foreign commercial borrowings in domestic currency. To maintain its level of domestic lending operations at the planned level shown in Annex 4, T-23, KDB currently plans to raise an additional W 80 billion in domestic IFDs between 1978-82 over and above the amount shown in the table in para 3.90. At present, however, it does not plan to cut down its foreign commercial borrowings by an equivalent amount but to increase its foreign lending by a further W 80 billion. /2

Guarantee Operations

3.94 KDB has forecast the level of its guarantee operations by projecting the inflow of annual foreign commercial loans to Korea and assuming that it will guarantee about 60% of these loans. On this basis, new guarantee issuance will be about US\$1.1 billion per annum between 1978 and 1982. A guarantee fee of 0.5% per annum has been assumed.

Financial Forecasts

3.95 KDB's projected balance sheets, income statements and cash flow statements for the years 1977-82 are shown in Annex 4, T-24, T-25 and T-26. Net income is expected to increase from W 49 billion in 1978 (2.5% of average total assets) to W 75 billion in 1982 (2.3% of average total assets). Financial expenses are expected to be about 6.4% of average total assets while gross income is expected to decline slightly from 10.2% of total assets in 1978 to 10.1% in 1982, with the result that the gross spread is expected to decline slightly from 3.8% in 1978 to 3.7% in 1982. Administrative expenses are expected to rise slightly from 0.9% in 1978 to 1.1% of average

/1 An increase of US\$43 million in foreign commercial borrowing and an increase of US\$50 million in official borrowings due to borrowings from Korea's official reserves of US\$100 million rather than \$50 million as planned.

/2 KDB's recent borrowing arrangements and adjustments to its lending program discussed in paras 3.92 and 3.93 are not reflected in the projections shown in Annex 4, T-23, T-24, T-25 and T-26, and discussed elsewhere in this section. At this stage they are only tentative and are subject to review and change (para 3.89).

total assets in 1982, principally as a result of higher staff salaries and personnel expenses, which are forecast to increase at 30% per annum. KDB's debt service coverage is expected to remain satisfactory at around 1.5 times in each year. KDB's profitability will remain adequate on the basis of these forecasts after having shown an improvement over the past three full years (1974-76) when net income averaged about 1.8% of average total assets.

3.96 Total assets are forecast to increase from W 1,770 billion in 1978 (US\$3.65 billion) to W 3,520 billion (US\$7.63 billion) in 1982 - an average annual growth rate of 18.5%. The current ratio is expected to be around 1.5 throughout the period, which is satisfactory. KDB's long-term debt/ equity ratio is expected in 1978 to be 4.0:1 and to decline to 3.53:1 in 1982 and to remain throughout the projection period within the agreed limit /1 of 5.0:1 contained in the loan agreements for two preceding Bank loans.

4. THE PROPOSED BANK LOAN

Recommendations and Justification

4.01 KDB's performance continues to be highly satisfactory from both the developmental and institutional points of view. By the multiplicity of its activities and the magnitude of its operations, KDB exerts a decisive impact on the Korean economy. It has been instrumental in the development of major industries in Korea. Apart from effectively performing the usual functions of a development finance institution, it also acts as the executing arm of the Government in the formulation, implementation and financing of major investment projects deemed of national importance. It undertakes considerable research work and contributes valuable inputs into Government policies in the financial and industrial sectors. To supplement its own development banking activities and help improve the Korean financial system, it has taken the initiative in establishing specialized subsidiaries to operate in the machinery leasing business and merchant banking. It has mobilized substantial and increasing amounts of private resources, particularly from the foreign capital market, to supplement its official resources. Finally, with its high operational standards, particularly in project appraisal and follow-up, KDB is an efficient intermediary for allocating funds (including the Bank's) to Korea's key industrial sector.

4.02 A Bank loan of \$110 million is recommended, which is estimated to finance slightly less than one half of KDB's foreign currency commitments over a two-year period from July 1, 1978. As indicated in para. 3.14, the economic rates of return on a large sample of KDB-financed projects range from 15 to 50%. As noted in para. 3.12, projects financed by KDB during 1975/76 are estimated to export as much as 50% of their incremental output. Subprojects to be financed under the proposed loan - the overwhelming bulk of which would be in the manufacturing private sector - are expected to yield

/1 Debt as defined under this limit excludes guarantees covered by the Guarantee Release Agreement.

similar economic benefits. These subprojects are expected to create approximately 14,000 new jobs at a cost per job of about US\$28,000, and to have a beneficial impact on smaller enterprises through the widespread practice of subcontracting. The Bank's association with KDB, although of relatively recent date, has already proved to be a productive and mutually beneficial one. Through KDB as an intermediary, Bank resources (totaling US\$112 million on a commitment basis) have been efficiently allocated to 95 projects (including 34 leasing projects financed through KILC) which are economically as well as financially viable, in the manufacturing, mining, infrastructure and transport sectors of the Korean economy. This association has enabled the Bank, notwithstanding the relatively low proportion of its financing in relation to KDB's overall resources, to exert its influence in encouraging KDB to improve its operational standards as well as to enhance its developmental impact. It is expected that over the period of commitment of the proposed loan, KDB will achieve further progress from both the institutional and developmental points of view.

Main Features of Loan

4.03 Financing of KILC. Under the previous Bank Loan 1338-KO, a component of US\$7.5 million ^{/1} (out of a total loan amount of US\$82.5 million) was earmarked specifically for financing small- and medium-sized leasing projects by KILC, a wholly-owned KDB subsidiary (referred to in para. 3.17). The Bank decided to finance leasing projects through KILC under the previous loan to KDB because KILC's leasing business, aimed primarily at medium-sized and small enterprises whose limited capital base and borrowing capacity did not allow them to make outright purchases, served a useful function within the Korean industrial financing system. KDB has requested the authority to utilize up to US\$10 million (out of US\$110 million) under the proposed loan for further financing of leasing projects through KILC. It is recommended that the Bank accede to this request. It is further recommended, for the sake of administrative simplicity, that instead of creating a separate component for financing KILC as with the previous Bank loan, KDB be authorized to onlend this US\$10 million amount to KILC in the form of a subproject loan. (This subproject, exceeding the proposed free limit referred to in paragraph 4.05 will require the Bank's review prior to approval.) In view of the Bank's satisfactory

^{/1} As of April 28, 1978, about US\$6.4 million had been committed for 33 leasing projects.

experience with KILC's operations to date, the administrative safeguards which were built into the component under the previous loan no longer appear necessary. However, the project eligibility criteria (namely, a ceiling of W 600 million on total assets of leasing enterprises; and a limit of US\$15,000 on the cost per job for leasing projects), which applied to the component under the previous loan, will continue to apply to leasing projects to be financed by KILC under the proposed loan. This understanding was confirmed at negotiations.

4.04 Financing of Foreign Exchange Component of Domestic Equipment. Apart from direct imports, it is recommended that KDB be authorized to use the proceeds of the proposed loan for financing the foreign exchange component of domestically manufactured capital goods estimated at 60%. This authority should further enhance KDB's current efforts (para. 3.48) to intensify its assistance to the rapidly expanding Korean machinery industry.

4.05 Free Limit. In view of the satisfactory and improving standards of KDB's project appraisal work (para. 3.37), it is recommended that the free limit, set at US\$1.5 million under the last preceding Bank loan, be raised to US\$2.5 million under the proposed loan. It is estimated that under this new free limit, projects accounting for 15% of the total number of subloans and 40% of the total loan amount would still require Bank review prior to approval.

4.06 Ceiling on Subloans and Sectoral Diversification. To ensure that the proceeds of the loan would be spread over a relatively large number of projects, a ceiling of US\$7.5 million /1 would be set on the size of individual subloans, (as against US\$5 million under the previous loan). Further, to ensure satisfactory sectoral diversification in the use of the Bank loan, not more than 25% of the total loan amount would be used by KDB to finance any single industrial activity or subsector.

4.07 Debt/Equity Limit. It is recommended that the contractual limit on KDB's long-term debt, set at 5 times its net worth under the first and second Bank loan agreements, be maintained. According to KDB's projections (para. 3.96), this limit is sufficient to accommodate KDB's proposed additional borrowings over the next several years.

4.08 Relending Rate. KDB intends to onlend the proceeds of the proposed loan at a rate which would give it a spread of 2 percentage points. Such a spread is in line with the practice of Korean government-owned financial institutions in relending foreign exchange resources borrowed from international sources (IBRD, ADB, et al), and, in KDB's case, is more than adequate to cover the cost incurred in the processing of foreign currency lending. The onlending rate to the subborrowers of about 9.5% (assuming a Bank lending rate of 7.5%) would represent a positive real rate of interest provided the Government manages to maintain inflation within 7% per annum as projected in the Fourth Plan. Should the Government fail to achieve this objective and inflation in Korea exceed present projections, adjustments in the won/dollar

/1 With the exception of KDB's onlending to KILC referred to in para. 4.03.

rate could be expected to take place which, considering that subborrowers bear the exchange risk, would maintain the real interest rate at a positive level. Over the period 1960-76, when inflation ran at an average of 15% p.a., the depreciation of the won vis-a-vis the dollar averaged 7% p.a. It should also be noted that under the Bank's practice of disbursing its loans to DFCs, the greater part of these disbursements in recent years was in hard currencies (e.g. Swiss Francs, Deutsche Marks and Japanese Yens) which have been appreciating against the dollar, adding to the effective cost of Bank funds to subborrowers. This pattern of the Bank's disbursements is expected to continue. In view of the foregoing, the proposed relending rate of 9.5% appears adequate.

4.09 Amortization Schedule. As is usual with Bank loans to DFCs, the proposed loan would have a flexible amortization schedule reflecting substantially the aggregate of the repayment schedules of individual subloans made by KDB. The loan is expected to be fully repaid within 17 years including a grace period of three years. The estimated disbursement schedule is shown in Annex 4, T-28.

Agreements and Understandings Reached at Negotiations

4.10 During loan negotiations, agreement was reached on the following matters:

- (a) the maintenance of the long-term debt/equity limit at 5:1 (para. 4.07);
- (b) a percentage of 60 representing the foreign exchange component of domestically produced capital goods (para. 4.04);
- (c) a free limit of US\$2.5 million on subprojects (para. 4.05); and
- (d) a ceiling of US\$7.5 million in individual subloans and a limit of 25% of the loan amount (or US\$27.5 million) on the financing by KDB of any given industrial activity or subsector (para. 4.06).

4.11 In addition, the following matters were reviewed, and understandings reached with KDB (recorded in agreed minutes):

- (a) the objectives outlined by KDB in its statement of Development Strategy for 1978/79 (para. 3.24);
- (b) the onlending of up to US\$10 million of the loan proceeds by KDB to KILC in the form of a subproject loan for financing leasing projects meeting specific eligibility criteria (para. 4.03);

- (c) KDB's procurement procedures and practices; and
- (d) KDB to set up a Project Monitoring System for a representative sample of about 50 projects financed under the two preceding Bank loans, with the objective of evaluating progress at critical stages of project implementation and of analysing actual project costs/benefits in comparison with appraisal estimates.

KOREA

KOREA DEVELOPMENT BANK

Board of Executive Directors, as of December 31, 1977

1. Mr. Woun Gie Kim, Governor

Appointed Governor of KDB in August 1972
Career spent mainly in Ministry of Finance
Last Position: Vice Minister in the Ministry of Finance
Age: 53
Termination Date: August 2, 1978

2. Mr. Choon Taik Chung, Deputy Governor

Appointed Deputy Governor of KDB in May 1976
Career spent mainly in Ministry of Finance
Last Position: Vice Chief of Office of Supply
Age: 44
Termination Date: May 11, 1979

3. Mr. Joon Park:

Joined KDB in 1942 and was promoted as Director of a department in 1967
Appointed as Executive Director in 1974
Age: 54
Termination Date: February 20, 1980

4. Mr. Duk Hyong Park:

Joined KDB in 1942 and was promoted as Director of a department in 1969
Appointed as Executive Director in 1975
Age: 54
Termination Date: February 20, 1978

5. Mr. Yong-Ki Kim:

Joined KDB in 1946 and was promoted as Director of a department in 1969
Appointed as Executive Director in 1975
Age: 56
Termination Date: April 27, 1978

6. Mr. Seh Hwan Lee:

Joined KDB in 1954 and was promoted as Director of a department in 1968
Appointed as Executive Director in 1975
Age: 53
Termination Date: September 25, 1978

7. Mr. Yang Sool Chang:

Joined KDB in 1948 and was promoted as Director of a department in 1973

Appointed as Executive Director in 1976

Age: 48

Termination Date: June 29, 1979

8. Mr. Baum Sauck Lee:

Joined KDB in 1950 and was promoted as Director of a department in 1970

Appointed as Executive Director in 1977

Age: 52

Termination Date: February 17, 1980

9. Mr. Eun Ki Hong:

Joined KDB in 1948 and was promoted as Director of a department in 1973

Appointed as Executive Director in 1977

Age: 51

Termination Date: February 17, 1980

KOREA

KOREA DEVELOPMENT BANK

Outline of Development Strategy for 1978/79

KDB will endeavor to enhance both its qualitative and quantitative contribution to the Korean economy. During the five-year period 1978-82, KDB plans to provide financing to industry for a total amount of W 2,756 billion (US\$5.68 billion) in domestic currency and US\$700 million in foreign currency. KDB aims to increase its share of gross fixed capital formation in Korea from 10% on average during the Third Plan period to 13.5% on average during the Fourth Plan period (1977-81). In parallel with the expansion of its financing, KDB will in the two-year period 1978/79 further accelerate its development activities particularly in the specific areas outlined below.

I. Project Promotion and Resource Allocation

- (a) KDB will give priority financing to skill intensive, export-oriented industrial sectors such as machinery, electronics and basic metals.
- (b) KDB will increase its emphasis on financing private sector projects.
- (c) KDB will increase the share of foreign currency lending in its annual disbursements from 12.1% on average during the Third Plan period to 16.1% during the Fourth Plan period.
- (d) KDB plans to expand its consultancy role to clients and prospective clients in the areas of project formulation, project design, choice of technology, engineering and project analysis.
- (e) KDB will also continue to expand its contribution to the financial and industrial sectors through further development of its subsidiary companies - KILC, SMBC and KASI.
- (f) Additionally, KDB will endeavor to enhance its resource allocation efficiency by:
 - (i) evaluating the forward and backward linkages of all capital and technology intensive projects;
 - (ii) taking into account Korea's areas of international competitive advantage when evaluating export-oriented and import substitution projects; and
 - (iii) scrutinizing carefully the employment impact of all industrial projects with particular regard to regional distribution of employment and to income distribution effects.

II. Resource Mobilization

In line with its objective of intensifying its efforts at raising private resources, KDB plans to: (a) issue domestic bonds (IFDs) for a total amount of W 165 billion; and (b) borrow from the foreign commercial markets a total amount of US\$260 million during the two-year period 1978-79.

III. Research and Inputs into Government Policy Formation

- (a) KDB plans to complete its study on Industrial Rationalization (para. 3.07) in late 1978 or early 1979.
- (b) KDB will seek an amendment of the KDB Act to enable it to conduct research and consultancy work, on a commissioned basis, for both private and public corporations.

IV. Organization.

To deal with the problem of staff attrition (para. 3.32), KDB will seek, as a matter of high priority, to further increase the productivity of its existing staff.

KOREA

KOREA DEVELOPMENT BANK

Policy Statement /1

Economic Role of KDB

1. The KDB shall assist in the economic development of Korea in conformity with its purposes as stated in the Korea Development Bank Act (KDB Act) enacted December 30, 1953, as amended, its By-Laws enacted February 16, 1954, as amended, and the other regulations governing its operations.

Operations

2. The KDB will carry out its operations in accordance with sound management and banking principles and practices. It shall endeavour to specialize in extending capital funds to such industries as are designated by the Government's economic plans or decrees as priority industries as well as other major basic industries which form the substructure of the economy. KDB may also make equity investments, provide working capital loans and render managerial and technical assistance to its Borrowers when the need arises. KDB will also extend guarantees on behalf of client enterprises. KDB, however, will not compete with other financial institutions in lending and administering industrial funds to assist major industries.

Project Selection

3. It will finance enterprises which are soundly managed and which appear, on careful economic, financial and engineering investigation to be viable. Following sound banking practices, the projects will be analyzed taking the following factors into consideration before making a commitment of financial assistance: (a) national economic benefits; (b) technical feasibility; (c) financial soundness and profitability; (d) marketability; and (e) quality of management.

Criteria for Selection of Borrowers

4. In its operations, preference will be given to the following major industries:

- (a) Generation, transmission and supply of electricity;

/1 Approved as a condition of effectiveness of Loan No. 1095-KO by KDB's Board of Executive Directors on April 4, 1975.

- (b) Coal-mining;
- (c) Ship-building;
- (d) Iron and steel manufacturing;
- (e) Electronics;
- (f) Export industries, designated by the Government to produce export commodities;
- (g) Import-substitution industries and industries producing raw materials necessary for export and import-substitution;
- (h) Indigenous industries and labor intensive industries; and
- (i) Such other industries as may be designated by the Government's economic plans or decrees as priority industries.

Qualifications for Eligible Borrowers

5. Eligible borrowers for KDB financing must meet the following qualifications:

- (a) Borrowers must be financially sound;
- (b) Borrowers must possess management and technical capacity for implementing the projects being financed;
- (c) Borrowers should not have defaulted on any of their outstanding obligations to KDB.

Maximum Investment and Assistance

- 6. (a) KDB shall not subscribe to and/or underwrite stocks (including investment certificates) if the paid-up amount of the stocks so held by KDB will exceed KDB's own paid-up capital;
- (b) KDB shall not normally make equity investments in any single enterprise in excess of either:
 - (i) fifteen percent (15%) of the total unimpaired paid-up capital, surplus, and free reserves of KDB; or
 - (ii) fifty percent (50%) of the paid-up capital of the enterprise.
- (c) KDB shall not normally extend financial assistance to any single enterprise which exceeds either of the following ceilings:

- (i) twenty-five percent (25%) of KDB's total unimpaired paid-up capital, surplus and free reserves;
- (ii) sixty-five percent (65%) of the total assets of the enterprise.

Foreign Exchange Risk

7. As a general policy, KDB shall cover itself adequately against foreign exchange risks in the conduct of its operations. However, in using "revolving funds" generated in the case of some foreign borrowings, KDB may assume the exchange risk temporarily. Also in using some funds provided under the Industrial Rationalization Fund Scheme, KDB may be exposed to the exchange risk. To cover the risk in the latter case, KDB will make provision amounting to 1.5% of such funds outstanding from time to time. Exchange losses exceeding the provision made by KDB, will be reimbursed by the Government.

Security Arrangements

8. (a) In accordance with normal business practices, KDB will obtain adequate security for its loans and guarantees. In extending a loan to an enterprise, KDB shall require such enterprise to provide security the value of which shall be not less than 125% of the amount of the loan. In the case of guarantees covered by a Government counter-guarantee the value of security shall be not less than the amount guaranteed, and in all other cases of guarantees, shall be not less than 120% of the principal amount covered under such guarantees.
- (b) KDB may waive any of the foregoing requirements in cases where the credit or the guarantee is extended in favor of those enterprises enumerated in para. 2, Article 10 of the Operating Manuals of KDB as of the date of this Policy Statement, provided, however, that in such cases KDB will endeavor to secure a guarantee or counter-guarantee from the Government or from a suitable bank or banks to cover the credit or guarantee granted.

Technical Assistance

9. KDB will endeavor to provide its subborrowers with the necessary technical services including assistance for upgrading production efficiency and solving complicated technical difficulties. It will observe the operation of its subborrowers and will, whenever necessary, promptly make available to them constructive and remedial advice on the operation of the project. When considered necessary, KDB will also dispatch its own staff to the project companies.

Management and Organization

10. To build and strengthen its own management and staff as well as to assist clients in the formulation and execution of their projects, KDB will maintain an effective organization and an adequate staff, including financial and economic analysis, engineering, accountancy, marketing and legal services.

Share-Holding Fund

11. KDB shall administer the Share-holding Administration Fund (the Fund) pursuant to the provisions of the KDB Share-holding Act (Act No. 2128, enacted 4 August 1969) as a separate and distinct account in KDB's official books, the Fund will be treated as segregated from the other transactions and resources of KDB in accordance with the provisions of said Act.

Financial Policies

12. KDB shall conduct its operations according to the provisions of the KDB Act. It shall endeavor to match the maturity of its liabilities with those of its assets. It will continually review the charges it levies for the financial assistance it provides to ensure that it receives an adequate "spread" to cover all its expenses including provisions for doubtful loans and investments, and to enable it to build reserves as required legally and as considered necessary by the management.

AEF Projects Department
May 1, 1978

KOREAKOREA DEVELOPMENT BANKRates of Interest in Korea, as of December 31, 1977

	% per annum
I. <u>Interest Rates Charged by KDB</u>	
a. <u>Domestic Capital Loans</u>	
Government funds	13.5
Machine industry promotion funds	
Shorter than 3 years	13
Shorter than 8 years	14
Over 8 years	15
Special equipment funds	
Shorter than 3 years	13
Shorter than 8 years	14
Internal funds (priority industries)	
Shorter than 3 years	13
Shorter than 8 years	14
Over 8 years	15
Internal funds (nonpriority industries)	
Shorter than 3 years	15
Shorter than 8 years	16
Over 8 years	17
Foreign commercial funds /a	12
b. <u>Domestic Working Capital Loans</u>	
Government funds	17
Machine industry promotion funds	13
Special equipment funds	13
Internal funds (prime clients)	15
Internal funds (other clients)	16
Foreign commercial funds /a	12
c. <u>National Investment Fund</u>	
Shorter than 3 years	13
Shorter than 8 years	14
d. <u>Tourism Development Fund</u>	4-16
e. <u>Industrial Rationalization Fund</u>	
Direct loans	
Shorter than 3 years	13
Shorter than 8 years	14
Through banking institutions	
Shorter than 3 years	11.5
Shorter than 8 years	12.5
f. <u>Government Special Fund Loans</u>	6-11.5
g. <u>Foreign Currency Loans</u>	
USAID (3rd loan)	10
KFW (4th loan)	9
ADB (5th loan)	10.75
IBRD (1st loan)	10.5
(2nd loan)	10.7
Foreign commercial funds	9
h. <u>Penalty Rate on Overdue Loans</u>	25

% per annum

II. Commercial Banks

Interest Rates on Deposits

a. Time Deposits

Over 3 months	13.2
Over 6 months	13.8
Over 1 year	14.4

b. Installment Savings

Over 1 year	12.2
Over 2 years	13.2
Over 3 years	14.2

c. Wage Earners' Savings Scheme

Over 1 year	23.8
Over 2 years	24.2
Over 3 years	28.2

Interest Rates on Lendings

a. Operating Funds

Ordinary Loans

Qualified enterprises	15
Ordinary enterprises	16

Commercial Notes

Qualified enterprises	15-18
Ordinary enterprises	16-19

Overdraft

Qualified enterprises	17
Ordinary enterprises	18

b. Term Loans

Shorter than 3 years	15
Shorter than 8 years	16
Over 8 years	17

c. Export Finance

8

d. Financing of Raw Material Imports by Export Industry

15-16

e. National Investment Fund

No longer than 3 years	11.5
No longer than 8 years	12.5

/a For export industries only.

KOREA

KOREA DEVELOPMENT BANK

Economic and Financial Rates of Return on a Sample of KDB-Financed Projects /a

Project No.	Type of Industry	Type of project /b	Capacity	Size of assets of company US\$ '000	Share of export in output %	Project cost		Share of KDB financing %	Internal rate of return		Total cost per job US\$ '000
						Local Foreign -- US\$ '000 --	%		Financial %	Economic %	
Not Completed											
1. Korea Zinc Company	Nonferrous metal	N	Zinc ingot 50,400 M/T. Sulfuric acid 100,192 M/T. Cadmium ingot 300/M.T.	4,234	33.0	42,636	25,000	8.0	21.7	24.5	137.0
2. Bookook Steel & Wire Co.	Metal	E	Steel wire rope 7,200 M/T.	12,164	70.0	1,544	1,924	49.5	21.5	22.5	58.0
3. Dae Woo Heavy Industries	Machinery	E	Lathe 150 sets. Milling w/c 160 sets. Boring w/c 40 sets.	175,197	-	7,409	4,996	40.3	21.2	30.4	26.3
4. Ton Myung Industry Co.	Machinery	N	28,000 oil hydraulic.	15,498	-	2,851	2,208	40.1	30.4	35.6	11.0
5. Lee Chun Electric Mfg. Co.	Machinery	E	Electric motor 1,004 KHP.	11,431	-	4,205	2,117	33.5	22.8	32.2	17.0
6. Heung-A Shipping Co.	Transportation	E	2 ships of 3,300 DWT.	25,710	-	3,533	1,132	24.3	21.73	24.41	101.4
7. Gold Star Tele-Electric	Machinery	E	62,000 L/U of 200-type telephone exchange & 36,000 sets of telephones.	25,064	7.5	5,629	1,411	20.0	43.6	46.9	8.4
8. Samyang Tire Company	Rubber	E	130,800 sets of tires.	40,841	58.0	7,168	4,000	35.8	30.1	46.3	33.0
9. Nan Jaong Industrial Co.	Quicklime	N	66,000 M/T of quicklime.	1,031	-	2,296	2,228	49.2	19.0	29.6	42.0
10. Chunusa Co.	Transportation	E	1,225,000 MST of CY service. 527,000 MST of CFS service.	10,623	73.0	1,437	1,233	76.2	21.5	36.8	14.0
11. Dong Yang Machinery Co., Ltd.	Machinery	E	36,000 sets rear axles. 22,800 sets transmissions. 600 sets lathes.	23,969	-	11,297	5,000	30.7	35.1	36.7	14.1
12. Pacific Metals Co.	Metal	N	1,100 M/T Alnico magnets.	10	90.0	3,955	1,954	33.0	23.5	32.9	31.3
13. Dae Won Chemical Co.	Synthetic leather	E	1,988,000 yds polyurethane leather.	2,482	100.0	2,452	990	29.0	17.5	43.4	26.7
14. Sung Il Trading Co.	Leather	E	4,752,000 S/F gram. 1,404,000 split leather.	2,016	100.0	2,043	880	30.0	23.7	42.1	23.0
15. Korea Bearing Industrial Co., Ltd.	Bearing manufacturing	E	16,536,000 pcs.	17,138	10.6	6,472	4,997	44.0	30.0	41.7	41.0
16. Korea Bearing Industrial Co., Ltd.	Bearing manufacturing	E	4,310,000 pcs.	4,997	-	2,048	2,984	59.0	38.0	34.9	44.0
17. Cho Yang Shipping Co.	Transportation	E	24,000 pcs. 116,400 K/T.	42,720	-	7,654	1,635	17.6	21.6	23.2	137.0
18. Mi Jin Metal Industry Co.	Metal	E	27,400 M/T of malleable cast iron.	6,642	46.6	3,444	3,946	53.4	19.8	25.8	9.0
19. Korea Integrated Special Steel Co.	Basic metal	E	53,000 M/T.	54,847	85.0	23,002	14,560	5.3	17.9	45.5	35.0
20. Gold Star Cable Co.	Metal	E	4,260 M/T electric wire & cable.	34,176	100.0	18,612	5,625	16.5	19.8	30.5	80.0
21. Pusan Steel Co.	Metal	E	19,000 M/T steel ingot & casting. 8,400 steel forgings.	10,272	79.0	7,309	2,882	28.2	16.0	26.6	8.0
22. Korea Integrated Special Steel Co.	Basic metal	E	4,300 M/T stainless steel sheet & coils.	29,472	56.0	12,353	20,599	17.4	15.9	26.3	59.0
23. Chosun Silk Textile Co.	Textile	E	1,330 km silk fabric.	24,579	90.0	1,474	923	38.0	23.4	46.2	16.0
24. Sam Yang Tire Mfg. Co.	Rubber	E	343,500 sets of conventional tires & 632,000 sets of radial tires.	54,689	62.0	11,392	11,576	21.8	15.0	31.5	43.0
25. Dae Woo Heavy Industries Co.	Machinery	N	1,360 sets machine tools.	7,317	-	2,351	4,313	59.7	19.9	25.6	60.0
26. Daehan Boiler Industrial Co.	Machinery	E	Water generator 2 units/power plant boiler 4 units.	4,023	-	3,755	2,160	36.5	22.1	25.3	18.5
27. Korea Synthetic Rubber Co.	Others	E	12,500 M/T SBR.	18,281	-	4,823	3,689	35.8	16.6	20.6	56.0
28. Sung Shin Cement Int. Co.	Cement	E	1,100,000 M/T cement.	34,081	-	4,947	1,211	19.7	n.a.	n.a.	n.a.
29. Sam Wha Trading Co.	Paper	N	1,224,000 c/s.	5,293	-	805	804	50.0	25.3	25.8	63.0
Completed											
30. Korea Synthetic Rubber Co.	Others	E	7,000 M/T SBR.	18,281	-	3,384	1,166	256.0	29.5	41.1	152.0
31. Orient Brewery Co.	Others	E	2,700,000 c/s beer.	42,395	0.3	18,776	6,437	9.1	13.6	25.6	82.0
32. Dong Yang Express Ferry Co.	Transportation	N	3,741 G/T.	343	-	80	2,470	96.9	27.9	15.4	25.0
33. Samwha Printing Co.	Printing	E	114,000 reams of printed matters. 600 M/T of P.P. & P.E film. 180 M/T of P.S. food container.	3,452	48.0	33	160	82.9	19.1	32.4	24.0
34. Korea Marine Transport Co.	Transportation	E	17,249 DWT.	24,069	-	134	4,455	86.7	21.5	22.4	152.9
35. Kangwon Industries Co.	Metal	N	5,000 M/T rolled steel.	71,877	-	770	3,263	80.9	23.4	38.9	16.8
36. Dae Do Synthetic Textile Co.	Textile	E	280 M/T jerseys.	2,854	100.0	224	243	52.0	21.3	25.2	9.3
37. Dong Yang Machinery Co.	Machinery	E	27,600 sets steering gear/y/7,866 propeller shaft ass'y.	7,866	-	1,803	1,505	45.0	48.2	45.7	19.0
38. Joong Ang Shipping Co.	Transportation	E	15,376 DWT.	3,987	-	95	3,150	91.6	26.3	29.1	101.0
39. Sam Yang Shipping Co.	Transportation	E	7,010 DWT.	4,041	-	100	3,000	96.8	22.3	21.8	91.0
40. Dong Sun Shipping Co.	Transportation	E	16,159 DWT.	10,913	-	99	3,300	88.3	24.7	23.5	226.0
41. Sam Ick Lines Co.	Transportation	E	20,000 DWT.	11,716	-	133	4,300	90.2	22.8	24.4	117.0
42. Nam Yang Shipping Co.	Transportation	E	10,326 DWT.	2,062	-	98	3,420	97.2	19.7	20.4	103.0
43. Seangyong Shipping Co.	Transportation	E	15,000 DWT.	20,541	-	117	4,000	97.2	19.8	17.3	133.0
44. Sam Ick Lines Co.	Transportation	E	23,196 DWT.	5,909	-	140	5,000	77.2	20.1	19.4	132.0
45. Tong Il Industry Co., Ltd.	Machinery	E	Lathes 550 sets.	2,613	19.6	470	577	55.1	28.4	35.7	5.6
46. Heung-A Shipping Co., Ltd.	Transportation	E	7,000 DWT.	9,467	-	308	2,188	87.7	21.6	21.0	89.1
47. Kukje Shipping Co., Ltd.	Transportation	E	14,000 DWT.	7,200	-	114	3,300	96.8	17.2	15.9	92.7

/a Sample based on projects financed by KDB under IBRD Loans No. 1095-KO and 1338-KO and under its third and fourth ADB Loans and only includes projects for which the IRR was calculated, i.e., generally projects with which received foreign currency loans in excess of US\$750,000 (see para 3.37). These projects are more capital intensive or average than KDB's projects as a whole with an average cost per job created of US\$50,700 as compared to an average in 1976/1977 of US\$18,000 for all KDB's projects. KDB's foreign currency loans tend in general to go to larger, more capital intensive projects than its domestic currency loans.

/b E = Expansion project.
N = New project.
R = Replacement.

AKF Projects Department

KOREA

KOREA DEVELOPMENT BANK

Major Technologies Introduced via KDB-Financed Projects
(From 1976 to 1977)

Applicant	Project products	Techniques employed or developed	Origin of techniques provided	Technician trained in foreign countries and visiting foreign technical (man-month)	
				Trained	Visiting
<u>Example</u>					
Daehan Synthetic Fiber Co.	Polyester S.F.	Automatic mixing technique of polyester chip	Chemtex Co., USA	2	2
Kangwon Industries Co.	Rolls & rolling mills	Techniques of manufacturing iron base rolls & steel base rolls	Blaw-Know Co., USA	7	-
Korea Zinc Co.	Electrolytic zinc ingot, sulfuric acid, & cadmium ingot	Technical & engineering information & services in the design, construction & operation of the plant	Toho Zinc Co., Japan	20	40
		Engineering & technical services in continuous leaching & residue treatment & supervision of erection and start-up of the plant	Genie Metallurgique et Chimique, S.A. Belgium	6	65
		Technique for the construction & operation of the plant	Mitsui Engineering & Shipbuilding Co., Japan	2	7
Pacific Control Co., Ltd.	Thermostats	All the information & assistance in manufacture of Hitachi model	Hitachi Co., Japan	8	2
Pacific Metals Co.	Alniw magnet	Technologies & manufacturing know-how relating to Alnico cast magnets	Hitachi Metals Co., Japan	8	2
Chosun Firebrick Industrial Co.	Insulating firebrick	Know-how as to the manufacture of insulating firebrick	Isolite Industrial Co., Japan	16	-
Man Jeong Industrial Co.	Quicklime	Manufacturing process of burning vertical quicklime & dolomite kiln	Nikky Engineering Inc., Japan	6	-
Pacific Development Co., Ltd.	Polyester zipper	Know-how as to the manufacturing process of polyester zipper & the right of using the trade mark "TRESER"	D.M.C. Group, West Germany	2	2

AEP Project Department
May 1, 1978

KOREAKOREA DEVELOPMENT BANKSummary of Managerial Assistance Given to KDB's Clients

	<u>Number of enterprises assisted</u>		
	1975	1976	(Jan-Sep) 1977
<u>A. General Management Assistance</u>			
1. Management consultation	13	20	15
2. Seminars	2	2	2
3. Meeting for management study	4	4	3
4. Studies			
(1) Management guide series	4	4	3
(2) Financial analysis	1	1	1
(3) Profitability study	9	8	6
<u>B. Other Assistance</u>			
1. Feasibility study of projects in relation to KDB's lending program	26	31	14
2. Study of financial position of company to determine foreign capital inducement prospects	33	130	75

AEP Projects
May 1, 1978

KOREA

KOREA DEVELOPMENT BANK

Professional Staffing Position by Departments

	As of 12/31/74	As of 12/31/76	As of 9/30/77
	----- Professional /a -----		
A. Head Office			
1. <u>Support Departments</u>			
Technical services	44	40	32
Business analysis	23	18	20
Research	30	41	38
Foreign capital	14	17	15
International	15	19	20
Subtotal support staff	<u>126</u>	<u>135</u>	<u>125</u>
2. <u>Operation Departments</u>			
Loan Department I	26	24	24
Loan Department II	17	14	16
Foreign loan	18	19	17
Foreign guarantee	20	22	18
Share holding	50	28	40
Special loan	59	49	48
Subtotal operation staff	<u>190</u>	<u>156</u>	<u>163</u>
3. <u>Planning & Control Departments</u>			
Planning	16	13	9
Business control	16	13	14
Securities	19	18	23
Special credit control	13	8	14
Audit	22	22	25
Operation development	-	14	16
Administration of readjustment corp.	..	5	5
Subtotal planning staff	<u>86</u>	<u>93</u>	<u>106</u>
4. <u>Administration Departments</u>			
Personnel	39	30	26
General services	23	21	21
Security control	14	12	11
Subtotal administration staff	<u>76</u>	<u>63</u>	<u>58</u>
5. <u>Secretariat</u>	<u>11</u>	<u>12</u>	<u>10</u>
6. <u>Temporary Staff</u>	<u>2</u>	<u>4</u>	<u>5</u>
7. <u>Head Office Construction</u>	<u>-</u>	<u>5</u>	<u>9</u>
Subtotal head office	<u>491</u>	<u>468</u>	<u>476</u>
B. Branches			
Inchon branch	9	6	7
Cheongju branch	5	7	7
Daejeon branch	7	8	8
Sam Cheog branch	5	6	7
Jeonju branch	4	5	6
Gwangju branch	7	9	10
Daegu branch	7	12	11
Busan branch	19	21	19
Ulsan branch	6	6	7
Temporary staff	-	-	-
Subtotal branches	<u>69</u>	<u>80</u>	<u>82</u>
C. Representative Offices			
London	3	3	3
New York	4	4	4
Tokyo	3	3	3
Kuwait	-	1	1
Hong Kong	-	-	2
Singapore	-	-	2
Subtotal representative offices	<u>10</u>	<u>11</u>	<u>15</u>
Total KDB	<u>570</u>	<u>559</u>	<u>573</u>

/a The term "professional" comprises staff from the deputy manager level onward, according to KDB's definition.

EAP Projects Department
May 1, 1978

KOREA
KOREA DEVELOPMENT BANKSummary of Loan Operations, 1974-77
(Won million)

	1974		1975		1976		1977 (Jan.-Sept.)		1977 (Jan.-Dec.)	
	No./a	Amount	No./a	Amount	No./a	Amount	No./a	Amount	No./a	Amount
Approvals /b										
Domestic currency capital loans		90,031		144,228		147,738		139,390	681	245,873
Domestic currency working capital loans		22,039		38,099		47,472		46,380	453	58,929
Total domestic currency loans		112,070		182,327		195,210		185,770	1,134	304,802
Foreign currency loans		24,576		21,853		34,498		29,706	67	41,582
Total approvals		136,646		204,180		229,708		215,476	1,201	346,384
Commitments										
Domestic currency capital loans	452	100,702	331	144,009	524	147,121	675	139,191	681	245,873
Domestic currency working capital loans	713	28,243	477	38,099	619	47,345	175	46,380	453	58,929
Total domestic currency	1,165	128,945	808	182,108	1,143	194,466	851	185,571	1,134	304,802
Foreign currency loans	58	24,255	32	21,000	50	34,066	52	29,527	66	41,403
Total commitments	1,223	153,200	840	203,108	1,193	228,532	903	215,098	1,200	346,205
Disbursements										
Domestic currency capital loans	452	100,702	331	144,009	524	147,121	364	115,870	681	245,873
Domestic currency working capital loans	713	28,243	477	38,099	619	47,345	359	46,180	453	58,929
Total domestic currency /c	1,165	128,945	808	182,108	1,143	194,466	723	162,050	1,134	304,802
Foreign currency loans	213	15,535	197	20,533	293	33,233	259	30,012	325	38,720
Total disbursements	1,378	144,480	1,005	202,641	1,436	227,699	982	192,062	1,459	343,522
Repayments										
Domestic currency capital loans	393	26,168	153	18,073	407	23,634	263	30,071	398	40,307
Domestic currency working capital loans	695	8,727	401	28,871	569	34,376	380	13,357	444	27,217
Total domestic currency	1,088	34,895	554	46,944	1,076	58,010	643	43,428	842	67,524
Foreign currency loans /d	191	2,362	105	3,570	201	7,616	84	5,662	135	7,992
Total repayments	1,279	37,257	659	50,514	1,277	65,626	727	49,090	977	75,516
Outstanding										
Domestic currency capital loans	1,401	340,467	1,579	466,403	1,696	589,890	1,797	675,689	1,979	795,456
Domestic currency working capital loans	390	53,206	466	62,434	516	75,402	495	108,226	525	107,115
Total domestic currency	1,791	393,673	2,045	528,837	2,212	665,292	2,292	783,915	2,504	902,571
Foreign currency loans	279	32,020	371	48,983	463	74,601	638	98,950	653	105,328
Total outstanding	2,070	425,693	2,416	577,820	2,675	739,893	2,930	882,865	3,157	1,007,899

/a Number of loans.

/b Number of approved loans not available in 1974, 1975 and 1976.

/c According to the standard banking practice in Korea, KDB credits its subborrowers' domestic currency loan accounts immediately after making a commitment. Consequently domestic currency commitments are equal to disbursements in all the years but 1977. The amounts not drawn down by the subborrowers from their respective loan accounts are shown under "Credit Control Account" - a current liability item. The outstanding balances under Credit Control Accounts as of the end of 1972 through 1977 were as follows:

Year	1974	1975	1976	1977 (Sept.)	1977 (Dec.)
Amount (Won million)	4,189	3,739	15,380	17,948	36,879

/d Includes adjustments in loan amounts on account of exchange rate fluctuations.

KOREA

KOREA DEVELOPMENT BANK

Analysis of Loans Committed During 1975/76 and 1977 (Jan.-Sept.) and Outstanding as of September 30, 1977
(Won million)

	Commitments									Outstanding as of September 30, 1977								
	1975			1976			1977 (Jan.-Sept.)			Capital loans			Working capital loans			Total		
	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%	No./b	Amount	%	No./a	Amount	%
I. <u>Type of Assistance</u>																		
Domestic currency	808	182,108	89.7	1,143	194,466	85.1	851	185,571	86.3	317	675,689	87.2	118	108,226	100.0	2,577	783,915	88.7
Foreign currency	32	21,000	10.3	50	34,066	14.9	52	29,527	13.7	128	98,950	12.8	-	-	-	353	98,950	11.3
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>100.0</u>	<u>1,193</u>	<u>228,532</u>	<u>100.0</u>	<u>903</u>	<u>215,098</u>	<u>100.0</u>	<u>445</u>	<u>774,639</u>	<u>100.0</u>	<u>118</u>	<u>108,226</u>	<u>100.0</u>	<u>2,930</u>	<u>882,865</u>	<u>100.0</u>
II. <u>Ownership</u>																		
Private sector	627	85,796	42.2	1,138	120,885	52.8	837	152,381	70.9	411	653,624	84.4	107	75,729	69.9	2,370	409,589	46.4
Public sector	213	117,312	57.8	55	107,647	47.1	66	62,717	29.1	34	121,015	15.6	11	32,497	30.1	560	473,226	53.6
(of which companies under SAF)/c	(17)	(10,418)	-	(9)	(8,920)	(3.9)	(11)	(5,974)	(2.8)	...	...	...	...	...	...	(52)	(30,727)	(3.5)
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>100.0</u>	<u>1,193</u>	<u>228,532</u>	<u>100.0</u>	<u>903</u>	<u>215,098</u>	<u>100.0</u>	<u>445</u>	<u>774,639</u>	<u>100.0</u>	<u>118</u>	<u>108,226</u>	<u>100.0</u>	<u>2,930</u>	<u>882,865</u>	<u>100.0</u>
III. <u>Nature of Project</u>																		
New	153	98,285	48.4	164	64,683	28.3	199	65,790	30.6	83	142,665	18.4	-	-	-	403	142,665	16.2
Expansion	175	62,428	30.7	326	110,229	48.2	492	92,667	43.1	321	553,091	71.4	-	-	-	1,710	553,091	62.6
Modernization, replacement	8	432	0.2	63	4,726	2.1	8	6,264	2.9	2	4,422	0.6	-	-	-	55	4,422	0.5
Working capital	477	38,099	18.8	619	47,345	20.7	189	46,380	21.5	-	-	-	118	108,226	100.0	495	108,226	12.3
Other	27	3,864	1.9	21	1,549	0.7	15	3,997	1.9	39	74,761	9.6	-	-	-	267	74,461	8.4
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>100.0</u>	<u>1,193</u>	<u>228,532</u>	<u>100.0</u>	<u>903</u>	<u>215,098</u>	<u>100.0</u>	<u>445</u>	<u>774,639</u>	<u>100.0</u>	<u>118</u>	<u>108,226</u>	<u>100.0</u>	<u>2,930</u>	<u>882,865</u>	<u>100.0</u>
IV. <u>Geographical Distribution</u>																		
Seoul City /d	124	63,879	31.4	206	101,547	44.4	342	72,726	34.1	160	429,796	55.5	31	22,051	20.4	1,224	451,847	51.2
Gyeonggi Province	115	28,638	14.1	110	28,231	12.4	157	34,140	15.9	72	75,186	9.7	29	37,032	34.2	553	112,218	12.7
South Chung-cheong Province	26	1,422	0.7	2	619	0.3	7	435	0.2	3	3,019	0.4	3	755	0.7	32	3,774	0.4
North Chung-cheong Province	72	11,374	5.6	32	8,270	3.6	10	3,096	1.4	8	18,361	2.4	4	3,761	3.4	67	22,122	2.5
Kang-won Province	58	6,906	3.4	10	2,604	1.1	18	9,478	4.4	6	14,189	1.8	6	2,907	2.7	73	17,096	1.9
South Jeon-ra Province	68	7,312	3.6	130	33,485	14.7	25	24,199	11.2	41	58,319	7.5	5	18,417	17.0	154	76,736	8.7
North Jeon-ra Province	48	1,828	0.9	1	280	0.1	12	729	0.3	3	1,774	0.2	3	134	0.1	30	1,908	0.2
South Kyung-sang Province	112	39,606	19.5	119	30,532	13.4	155	36,884	17.2	45	98,240	12.7	6	8,543	7.9	401	106,783	12.1
North Kyung-sang Province	94	20,311	10.0	32	8,164	3.6	27	14,910	6.9	25	34,410	4.4	9	1,064	0.9	44	35,474	4.0
Busan City	121	21,715	10.7	549	14,271	6.2	150	18,501	8.4	80	41,258	5.3	20	13,029	12.1	360	54,287	6.2
Che-ju Island	2	117	0.1	2	529	0.2	-	-	-	2	87	0.1	2	533	0.6	12	620	0.1
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>100.0</u>	<u>1,193</u>	<u>228,532</u>	<u>100.0</u>	<u>903</u>	<u>215,098</u>	<u>100.0</u>	<u>445</u>	<u>774,639</u>	<u>100.0</u>	<u>118</u>	<u>108,226</u>	<u>100.0</u>	<u>2,930</u>	<u>882,865</u>	<u>100.0</u>

/a Number of loans.

/b Number of companies.

/c Shareholding Administration Fund.

/d Of commitments during 1976, Won 53,380 million were made to KECO; total (KECO) loans outstanding as of September 30, 1977: Won 251,299 million.

AEP Projects Department
May 1, 1978

KOREA
KOREA DEVELOPMENT BANK

Distribution by Size and Duration of Loans Committed 1975/76 and 1977 (Jan.-Sept.) and Outstanding as of September 30, 1977
(Won million)

	Commitments									Outstanding as of September 30, 1977								
	1975			1976			1977 (Jan.-Sept.)			Capital loans			Working capital loans			Total		
	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%
I. <u>Size of Assistance (Won)</u>																		
Less than 8,000,000	181	409	0.2	538	1,571	0.7	66	335	0.2	422	1,313	0.2	32	27	-	341	1,340	0.2
8,000,001 - 20,000,000	168	2,487	1.2	158	1,336	0.6	123	1,395	0.7	406	3,421	0.4	62	604	0.6	418	4,025	0.5
20,000,001 - 40,000,000	92	2,880	1.4	60	1,473	0.6	106	2,517	1.2	236	6,606	0.9	57	1,258	1.2	393	7,864	0.9
40,000,001 - 120,000,000	142	12,100	6.0	181	12,240	5.4	280	15,484	2.2	572	36,216	4.7	134	7,418	6.9	846	43,634	4.9
120,000,001 - 200,000,000	73	10,148	5.0	62	7,492	3.3	93	12,730	5.9	212	30,076	3.9	65	8,050	7.4	259	38,126	4.3
200,000,001 - 400,000,000	63	15,328	7.5	66	15,754	6.9	100	22,887	10.6	193	65,087	8.4	86	10,994	10.2	280	76,081	8.6
400,000,001 - 800,000,000	49	25,588	12.6	61	32,296	14.1	64	35,109	16.3	167	74,190	9.6	29	17,414	16.1	178	91,604	10.4
800,000,001 - 2,000,000,000	52	64,275	31.7	54	60,482	26.5	43	64,070	29.8	152	142,925	18.4	24	33,828	31.3	150	176,753	20.0
2,000,000,001 and above	20	69,893	34.4	13	95,888	41.9	14	60,570	28.1	75	414,805	53.5	6	28,633	26.3	65	443,438	50.2
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>100.0</u>	<u>1,193</u>	<u>228,532</u>	<u>100.0</u>	<u>903</u>	<u>215,098</u>	<u>100.0</u>	<u>2,435</u>	<u>774,639</u>	<u>100.0</u>	<u>495</u>	<u>108,226</u>	<u>100.0</u>	<u>2,930</u>	<u>882,865</u>	<u>100.0</u>
II. <u>Duration</u>																		
1. <u>Capital loans</u>																		
Up to 1 year	-	-	-	-	-	-	-	-	-	17	18,530	2.4						
1- 2 year(s)	-	-	-	20	2,185	1.2	1	112	0.1	13	2,884	0.4						
2- 4 years	23	1,621	0.9	59	4,563	2.5	52	4,727	2.8	101	14,087	1.8						
4- 6 years	74	8,890	5.4	122	11,017	6.1	102	10,011	5.9	305	41,045	5.3						
6- 8 years	73	31,138	18.9	137	97,917	54.0	336	58,288	34.6	1,133	279,646	36.1						
8-10 years	133	90,298	54.7	51	20,205	11.1	86	36,976	21.9	364	105,801	13.7						
10-15 years	25	3,462	2.1	29	13,564	7.5	98	18,303	10.8	286	63,927	8.3						
Over 15 years	35	29,600	18.0	27	31,802	17.6	38	40,301	23.9	216	248,719	32.0						
<u>Subtotal</u>	<u>163</u>	<u>165,009</u>	<u>100.0</u>	<u>445</u>	<u>181,253</u>	<u>100.0</u>	<u>713</u>	<u>168,718</u>	<u>100.0</u>	<u>2,435</u>	<u>774,639</u>	<u>100.0</u>						
2. <u>Operating loans</u>																		
Up to 6 months	257	5,840	15.3	593	7,359	15.6	54	704	1.5	-	-	-	27	697	0.6			
6 months-1 year	65	5,962	15.6	81	20,510	43.4	44	20,582	44.3	-	-	-	49	26,163	24.2			
1-2 year(s)	81	6,182	16.2	54	5,570	11.8	45	7,980	17.2	-	-	-	93	18,041	16.7			
2-3 years	44	8,504	22.3	16	9,744	20.6	39	12,836	27.7	-	-	-	274	50,660	46.8			
Over 3 years	30	11,611	30.6	4	4,096	8.6	8	4,278	9.3	-	-	-	52	12,665	11.7			
<u>Subtotal</u>	<u>477</u>	<u>38,099</u>	<u>100.0</u>	<u>748</u>	<u>47,279</u>	<u>100.0</u>	<u>190</u>	<u>46,380</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>495</u>	<u>108,226</u>	<u>100.0</u>			
<u>Total</u>	<u>840</u>	<u>203,108</u>	<u>-</u>	<u>1,193</u>	<u>228,532</u>	<u>-</u>	<u>903</u>	<u>215,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>495</u>	<u>108,226</u>	<u>-</u>			

/a Number of loans.
/b Number of companies.

AEP Projects Department
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KOREA

KOREA DEVELOPMENT BANK

Sectoral Distribution of Loans Committed 1975/76 and 1977 (Jan.-Sept.) and Outstanding as of September 30, 1977
(Won million)

	Commitments									Outstanding as of September 30, 1977								
	1975			1976			1977 (Jan.-Sept.)			Capital loans			Working capital loans			Total		
	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%	No./b	Amount	%	No./a	Amount	%
A. Manufacturing Industries																		
a. Consumer Goods Industries																		
Food, beverage & tobacco	39	3,693	1.8	41	3,864	1.7	19	1,278	0.6	22	8,803	1.1	3	1,191	1.1	100	9,994	1.1
Textile, wearing apparel & leather	72	6,756	3.3	102	5,404	2.4	102	10,308	4.8	77	23,123	2.9	24	8,912	8.2	307	32,035	3.6
Printing & publishing	8	935	0.5	6	480	0.2	12	548	0.3	8	1,357	0.3	2	103	0.1	29	1,460	0.2
Subtotal	119	11,384	5.6	149	9,748	4.3	133	12,134	5.7	107	33,283	4.3	29	10,206	9.4	436	43,489	4.9
b. Intermediate Goods Industries																		
Wood & wood products	8	523	0.3	9	469	0.2	4	129	0.1	8	1,242	0.2	5	1,843	1.7	37	3,085	0.3
Paper & paper products	32	2,050	1.0	60	1,987	0.9	32	1,096	0.5	17	5,629	0.7	5	379	0.4	99	6,008	0.7
Chemicals, rubber & plastics	127	15,886	7.8	277	29,886	13.1	121	32,912	15.3	28	69,479	8.9	12	10,937	10.1	316	80,416	9.1
Petroleum & coal	20	1,110	0.5	12	1,139	0.5	18	2,327	1.1	4	5,288	0.6	1	832	0.8	24	6,120	0.7
Nonmetallic mineral products	61	7,559	3.7	79	14,692	6.4	37	12,559	5.8	27	26,465	3.5	16	11,850	10.9	165	38,315	4.4
Subtotal	248	27,128	13.3	437	48,173	21.1	212	49,023	22.8	84	108,103	13.9	38	25,841	23.9	641	133,944	15.2
c. Capital Goods Industries																		
Basic metals	109	23,542	11.6	117	25,465	11.1	153	34,910	16.3	19	76,379	9.9	14	22,550	20.8	307	98,929	11.2
Metal products	28	4,696	2.3	80	8,941	3.9	49	4,762	2.3	13	12,425	1.6	2	3,712	3.4	128	16,137	1.8
Machinery	30	7,303	3.6	68	5,718	2.5	99	17,981	8.3	13	32,895	4.2	2	9,826	9.1	166	42,721	4.8
Electrical machinery	3	528	0.3	42	6,098	2.7	50	9,606	4.4	22	8,929	1.2	2	2,667	2.5	123	11,596	1.3
Transport equipment	104	9,344	4.6	124	18,891	8.3	56	15,811	7.3	13	42,745	5.5	6	12,768	11.8	249	55,513	6.4
Subtotal	274	45,413	22.4	431	65,113	28.5	407	83,070	38.6	80	173,373	22.4	26	51,523	47.6	973	224,342	24.3
d. Miscellaneous Mfg. Industries	10	598	0.3	6	146	0.1	4	265	0.1	..	..	..	..	..	..	14	454	1.2
Total mfg. industries	651	84,523	41.6	1,023	123,180	54.0	756	144,492	67.2	271	314,800	40.6	93	87,529	80.9	2,064	402,329	45.6
B. Nonmanufacturing Industries																		
Agriculture, forestry & fishery	7	912	0.5	5	2,140	0.9	2	1,075	0.5	3	10,433	1.4	4	9,326	8.6	147	19,759	2.2
Mining & quarrying	10	6,271	3.1	5	3,492	1.5	5	5,955	2.7	5	252,591	32.6	1	140	0.1	184	252,731	28.6
Electricity & waterworks	23	56,927	28.0	18	57,669	25.2	19	16,167	7.5	6	34,978	4.5	2	1,587	1.5	70	36,565	4.1
Construction	20	8,197	4.0	27	7,046	3.1	13	5,921	2.8	109	123,572	16.0	9	4,062	3.8	272	127,634	14.5
Transportation	33	35,782	17.6	64	29,196	12.8	84	32,281	15.1	19	31,333	4.0	3	1,768	1.6	208	33,101	3.7
Banking & insurance	74	9,235	4.6	30	4,285	1.9	13	7,145	3.3	31	6,904	0.9	5	3,803	3.5	81	10,707	1.2
Hotel & tourism	22	1,261	0.6	21	1,524	0.6	4	650	0.3	1	28	-	1	11	-	4	39	0.1
Other services	-	-	-	-	-	-	7	1,412	0.6	-	-	-	-	-	-	-	-	-
Total nonmfg. industries	189	118,585	58.4	170	105,952	46.0	147	70,606	32.8	174	459,839	59.4	25	20,697	19.1	866	480,536	54.4
Grand total	840	203,108	100.0	1,193	228,532	100.0	903	215,098	100.0	445	774,639	100.0	118	108,226	100.0	2,930	882,865	100.0

/a Number of loans.

/b Number of companies.

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(won million)

	1974	1975	1976	1977 Jan.-Sept.	1977 Jan.-Dec.
I. <u>Equity Investments</u>					
Total investments at the beginning of the year	58,642	65,883	131,595	160,238	160,238
New investments during the year					
Direct purchases	10,671	14,430	38,619	54,217	60,983
Loan conversions	-	4,910	2,200	941	2,066
Transfer from Government	-	50,013	-	-	-
<u>Total new investments</u>	<u>10,671</u>	<u>69,351</u>	<u>40,819</u>	<u>55,158</u>	<u>63,049</u>
Investments sold during the year	3,430	3,641	12,176	3,509	5,926
Net investments at the end of the year					
Direct purchases	43,107	46,817	84,554	135,328	140,469
Loan conversions	17,353	17,414	20,335	21,211	22,294
Transfer from Government	5,423	67,364	55,349	55,348	54,598
<u>Total at the end of the year</u>	<u>65,883</u>	<u>131,595</u>	<u>160,238</u>	<u>211,887</u>	<u>217,361</u>
II. <u>Bonds and Debentures</u>					
Total investments at the beginning of the year	8,864	10,076	13,524	17,527	17,527
New investments during the year	1,684	4,836	4,740	3,757	10,485
Investments sold during the year	472	1,388	737	267	4,776
<u>Net investments at the end of the year</u>	<u>10,076</u>	<u>13,524</u>	<u>17,527</u>	<u>21,017</u>	<u>23,236</u>
III. <u>Total Investments</u>					
Total investments at the beginning of the year	67,506	75,959	145,117	177,765	177,765
New investments during the year	12,355	74,187	45,559	58,915	73,534
Investments sold during the year	3,902	5,029	12,913	3,776	10,702
<u>Net investments at the end of the year</u>	<u>75,959</u>	<u>145,119</u>	<u>177,765</u>	<u>232,904</u>	<u>240,597</u>
IV. <u>Income from Investment Portfolio</u>					
Dividend income	2,339	2,707	3,719	6,284	6,448
As % of the average equity investments	3.8	2.7	2.5	3.4	3.4
Capital gains realized	1,320	1,566	4,861	4,844	6,054
As % of cost of investments sold	38.5	20.5	50.8	138.0	56.5
Dividend income plus capital gains	3,659	4,273	8,580	11,128	12,502
As % of average equity investments	5.9	3.8	5.9	6.0	6.6
Interest income from bonds and debentures	775	1,017	1,331	1,031	1,839
As % of average bonds & debentures investments	8.2	8.6	8.6	5.3	8.3
Total income from total investment portfolio	4,434	5,290	11,245	12,159	14,341
As % of total average investment portfolio	6.2	4.8	7.0	5.9	6.8

AEP Projects Department
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KOREA

KOREA DEVELOPMENT BANK

Analysis of Equity Investments 1974-76 and 1977 (Jan.-Sept.) and Outstanding as of September 30, 1977
(Won million)

	1975			1976			1977 (Jan.-Sept.)			Outstanding as of September 30, 1977		
	No./a	Amount	%	No./a	Amount	%	No./a	Amount	%	No./b	Amount	%
I. <u>Type of Assistance</u>												
Domestic currency	29	69,351	100.0	12	40,819	100.0	17	54,432	98.7	40	211,052	99.6
Foreign currency	-	-	-	-	-	-	1	726	1.3	2	835	0.4
Total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0
II. <u>Ownership</u>												
Private sector	7	7,588	10.9	5	11,421	28.0	12	7,888	14.3	18	27,818	13.1
Public sector /c	22	61,763	89.1	7	29,398	72.0	6	47,270	85.7	24	184,069	86.9
(of which companies under SAF) /d	(1)	(100)	(0.1)	(1)	(500)	(1.2)	(2)	(1,541)	(2.8)	(6)	(19,896)	(19.4)
Total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0
III. A. <u>Manufacturing</u>												
Consumer goods	-	-	-	-	-	-	1	941	1.7	4	1,299	0.6
Intermediate goods												
Industries	7	18,499	26.7	2	23,134	56.7	3	16,403	29.7	5	59,118	27.9
Capital goods industries	6	7,197	10.3	3	8,251	20.2	4	33,209	60.2	7	80,787	38.1
Miscellaneous industries	-	-	-	2	400	1.0	-	-	-	1	3,100	1.5
Total mfg. industries	13	25,696	37.0	7	31,785	77.9	8	50,553	91.6	17	144,304	68.1
B. <u>Nonmanufacturing Industries</u>	16	43,655	63.0	5	9,034	22.1	10	4,605	8.4	25	67,583	31.9
Grand total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0
IV. <u>Nature of Project</u>												
New	1	100	0.1	5	8,870	21.7	5	3,871	7.0	10	16,093	7.6
Existing	28	69,251	99.9	7	31,949	78.3	13	51,287	93.0	32	195,794	92.4
Total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0
V. <u>Geographical Distribution</u>												
Seoul City	16	38,553	55.7	4	11,790	28.9	12	5,429	9.9	27	59,296	28.0
Kyunggi Province	3	5,980	8.6	1	1,005	2.5	-	-	-	4	22,238	10.5
South Chung-cheong Province	2	9,300	13.4	1	4,742	11.6	-	-	-	1	14,042	6.6
North Chung-cheong Province	4	9,376	13.5	1	15,273	37.4	1	14,727	26.7	1	45,026	21.3
Kang-won Province	-	-	-	-	-	-	-	-	-	-	-	-
South Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-
North Jeon-ra Province	-	-	-	-	-	-	-	-	-	-	-	-
South Kyung-sang Province	2	130	0.1	3	900	2.2	2	4,250	7.7	5	9,071	4.2
North Kyung-sang Province	2	6,012	8.7	1	7,000	17.2	2	30,026	54.4	2	61,379	29.0
Busan City	-	-	-	-	-	-	-	-	-	-	-	-
Che-ju Island	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	1	109	0.2	1	726	1.3	2	835	0.4
Total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0
VI. <u>Size of Assistance (Won)</u>												
Less than 8,000,000	-	-	-	-	-	-	-	-	-	-	-	-
8,000,001 - 20,000,000	-	-	-	-	-	-	2	14	-	-	-	-
20,000,001 - 40,000,000	1	30	-	-	-	-	1	26	-	2	61	-
40,000,001 - 120,000,000	6	456	0.7	1	109	0.3	1	106	0.2	3	214	0.1
120,000,001 - 200,000,000	1	150	0.2	2	400	0.9	1	143	0.3	2	336	0.2
200,000,001 - 400,000,000	2	547	0.8	1	246	0.6	2	678	1.2	5	1,480	0.7
400,000,001 - 800,000,000	3	1,982	2.9	1	500	1.2	4	2,519	4.6	8	5,388	2.5
800,000,001 - 2,000,000,000	4	6,376	9.2	2	2,488	6.1	4	4,345	7.9	7	9,058	4.3
2,000,000,001 and above	12	59,810	86.2	5	37,076	90.9	3	47,327	85.8	15	195,350	92.2
Total	29	69,351	100.0	12	40,819	100.0	18	55,158	100.0	42	211,887	100.0

/a Number of operations.

/b Number of companies.

/c Companies in which KDB and/or government holdings exceed 50% of the share capital.

/d Share Administration Fund.

AEP Projects Department
May 1, 1978

KOREA
KOREA DEVELOPMENT BANK

Summary of Guarantee Operations, 1974-77
(In million won)

	1974		1975		1976		1977 (Jan.-Sept.)		1977 (Jan.-Dec.)	
	During the year	At the end of the year	During the year	At the end of the year	During the year	At the end of the year	During the period	At the end of the period	During the year	At the end of the year
Foreign Currency Guarantees Issued	689,553/b	1,278,994	540,058/b	1,443,050	1,310,792	2,453,229	856,300	3,090,673	1,035,591	3,207,530
Of which										
(i) Covered under the GRA /a	-	-	50,793	1,148,811	1,083,120	2,072,632	527,645	2,698,862	621,712	2,548,312
(ii) Covered under COK counter guarantee	-	113,772	-	48,064	-	32,495	-	21,937	-	19,415
(iii) Covered under (ii) but excluded from (i)	-	-	-	7,367	-	12,360	-	5,008	-	9,845
Domestic Currency Guarantees Issued										
Local payment guarantees	-	200	-	167	-	134	-	101	-	303
Local repayment guarantees	4,188	24,814	11,077	30,876	35,707	57,952	20,902	62,794	60,761	70,898
Others	6,116	7,334	-	5,919	-	377	-	143	-	113
Total domestic currency guarantees	10,304	32,348	11,077	36,962	35,707	58,463	20,902	63,038	60,761	71,314
Total guarantees issued	699,857	1,311,342	551,135	1,480,012	1,346,499	2,511,692	877,202	3,153,711	1,096,352	3,278,844
Guarantees Redeemed	175,940	-	382,465	-	314,819	-	235,183	-	329,200	-
Guarantee commission earned	4,757	-	7,307	-	8,683	-	9,527	-	12,999	-
(As % of average outstanding guarantees)	0.5	-	0.5	-	0.44	-	0.34	-	0.45	-

/a Guarantee Release Arrangement dated March 31, 1975 between the Government of Korea and KDB.

/b New foreign currency guarantees issued during the years 1974 through 1977 can be reconciled with Annex 4, T-13 figures after the following adjustments:

	1974	1975	1976	1977 (Jan.-Sept.)
New foreign currency guarantees	561,203	106,849	1,223,498	766,729
Increase from variations in the foreign exchange rates	41,679	308,832	(11,754)	55,129
Other increases	5,496	16,254	(20,729)	(14,125)
Guarantees on letter of credit	81,155	108,123	119,777	48,567
Total	689,533	540,058	1,310,792	856,300

Increases from variations in the foreign exchange rates arise because of KDB's policy to adjust the recorded sale of foreign currency guarantees only at the time a transaction occurs in respect of specific guarantees.

KOREA
KOREA DEVELOPMENT BANKAnalysis of Guarantees Committed 1975-76 and 1977 (Jan-Sept) and Outstanding /a as of September 30, 1977
(Won million)

	1975			1976			1977 (Jan-Sept)			Outstanding /b as of Sept. 30, 1977		
	No./c	Amount	%	No./c	Amount	%	No./c	Amount	%	No./d	Amount	%
I. Type of assistance												
Domestic currency	47	11,077	9.5	89	35,707	2.8	33	20,902	2.7	58	62,894	2.0
Foreign currency	108	106,849	90.6	120	1,223,498	97.2	91	766,729	97.3	71	3,053,311	98.0
Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	129	3,116,205	100.0
II. Ownership												
Private sector	144	67,326	57.1	120	189,572	15.2	100	427,471	54.3	85	1,591,327	51.1
Public sector	11	50,600	42.9	89	1,069,633	84.8	24	360,160	45.7	44	1,524,878	48.9
(of which companies under SAF)	(3)	(468)	(0.4)	(8)	(3,935)	(0.3)	(4)	(636)	(0.1)	(...)	(18,520)	(0.6)
Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	129	3,116,205	100.0
III. Sectoral distribution												
A. Consumer goods industries	36	20,957	17.8	40	55,890	4.4	19	21,782	2.8	13	167,436	5.4
Intermediate goods industries	35	12,733	10.8	58	405,871	32.2	30	254,375	32.3	38	872,285	28.0
Capital goods industries	24	30,940	26.2	91	575,098	45.5	34	104,661	13.3	41	1,100,767	35.3
Miscellaneous industries	47	3,278	2.8	-	-	-	-	-	-	-	-	-
Total Mfg. industries	142	67,908	57.6	189	1,036,859	82.1	83	380,818	48.4	92	2,140,488	68.7
B. Non-Mfg. industries	13	50,018	42.4	20	222,346	17.9	41	406,813	51.6	37	975,717	31.3
Grand Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	129	3,116,205	100.0
IV. Nature of project												
New	12	19,340	16.5	32	228,590	18.2	28	298,687	37.9	18	622,941	20.0
Expansion	45	77,660	65.8	101	987,775	78.4	49	422,113	53.6	81	1,317,666	42.3
Modernization & replacement	1	198	0.2	1	204	-	-	-	-	1	691,328	22.2
Working capital	67	11,000	9.3	75	42,636	3.4	40	63,664	8.1	24	150,824	4.8
Other	30	9,728	8.2	-	-	-	7	3,167	0.4	5	333,466	10.7
Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	129	3,116,205	100.0
V. Geographical distribution												
Seoul City	37	21,816	18.5	56	214,348	17.0	40	405,085	51.4	54	983,694	31.6
Kyunggi Province	22	9,906	8.4	11	26,832	2.1	4	16,283	2.1	12	71,203	2.3
South Chungcheong Province	1	500	0.5	1	3,000	0.6	1	4,625	0.6	2	18,739	0.6
North Chungcheong Province	5	2,594	2.2	3	10,561	0.8	1	12	-	3	28,268	0.9
Kang Won Province	7	5,896	5.0	26	114,941	9.1	-	-	-	12	133,680	4.3
South Jeonra Province	14	16,745	14.2	20	217,559	17.3	12	-	13.3	6	465,385	14.9
North Jeonra Province	2	943	0.8	2	8,283	0.7	-	-	-	2	111,092	3.6
South Kyungsang Province	31	27,477	23.3	31	142,558	11.4	31	203,088	25.8	12	472,061	15.2
North Kyungsang Province	27	23,467	19.9	37	490,792	39.0	13	19,979	2.5	15	749,770	24.1
Busan City	8	8,373	7.1	20	24,329	1.9	21	33,567	4.3	5	82,058	2.5
Che-ju Island	1	119	0.1	2	1,002	0.1	1	23	-	1	255	-
Total	155	117,926	100.0	209	1,259,206	100.0	124	787,631	100.0	129	3,116,205	100.0
VI. Size of Assistance (Won)												
Less than 8,000,000	3	20	-	2	2	-	-	-	-	41	143	-
8,000,001- 20,000,000	10	165	0.1	1	20	-	2	32	-	55	663	-
20,000,001- 40,000,000	35	981	0.9	1	23	-	2	51	-	24	2,342	0.1
40,000,001- 120,000,000	34	2,369	2.0	21	1,462	0.1	8	848	0.1	63	3,743	0.1
120,000,001- 200,000,000	13	1,487	1.3	25	3,895	0.3	8	1,406	0.2	35	5,884	0.2
200,000,001- 400,000,000	22	5,146	4.4	25	7,006	0.6	7	1,797	0.2	56	28,610	0.9
400,000,001- 800,000,000	15	7,842	6.6	15	7,059	0.6	23	13,968	1.8	68	39,791	1.3
800,000,001-2,000,000,000	9	12,972	11.0	26	51,259	4.1	23	34,898	4.4	135	151,538	4.9
2,000,000,000 and above	14	86,944	30.6	93	1,183,479	94.3	51	734,631	93.3	299	2,883,491	92.5
Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	776	3,116,205	100.0
VII. Duration												
Less than 1 year	51	10,521	8.9	67	21,463	1.7	33	26,929	3.4	14	35,458	1.1
1 year - less than 2 years	30	8,309	7.0	6	10,295	0.8	5	2,982	0.4	4	18,811	0.6
2 years - less than 4 years	2	355	0.3	10	39,690	3.2	6	12,120	1.5	16	107,841	3.5
4 years - less than 6 years	20	21,819	18.5	34	98,054	7.8	17	70,064	8.9	21	255,290	8.2
6 years - less than 8 years	24	16,921	14.3	22	148,592	11.8	34	229,777	29.2	24	696,351	22.4
8 years - less than 10 years	25	58,593	49.8	235	306,772	24.4	11	72,870	9.3	11	560,339	18.0
10 years - less than 15 years	2	1,293	1.1	42	633,015	50.2	17	350,813	44.5	30	1,381,537	44.3
15 years and over	1	115	0.1	3	1,324	0.1	1	22,076	2.8	9	60,578	1.9
Total	155	117,926	100.0	209	1,259,205	100.0	124	787,631	100.0	129	3,116,205	100.0

/a Foreign exchange fluctuations are not reflected, except for guarantees outstanding as of September 30, 1977, also excludes L/C guarantees.

/b Excludes 4C guarantees and guarantees transferred to the Readjustment Corporation.

/c Number of operations.

/d Number of companies except for VI (Size of Assistance) which shows the number of operations.

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KOREA DEVELOPMENT BANK

Summarized Audited Income Statements, 1974-76, and Unaudited 1977
(Won million)

	1974	1975	1976	1977/a
<u>INCOME</u>				
<u>Interest Income</u>				
Interest on loans	33,005	50,553	67,218	86,181
Interest on bonds and debentures	781	986	1,254	5,881
Interest on deposits	1,049	366	312	4,388
<u>Total interest income</u>	<u>34,835</u>	<u>51,905</u>	<u>68,784</u>	<u>96,450</u>
<u>Other Income</u>				
Dividend income	2,339	2,707	3,718	6,398
Guarantee commissions	4,757	7,307	9,130	12,999
Capital gains on sale of investment	1,300	1,566	4,861	6,054
Other income	1,160	1,570	3,040	5,409
<u>Total other income</u>	<u>9,576</u>	<u>13,150</u>	<u>20,749</u>	<u>30,860</u>
<u>Total gross income</u>	<u>44,391</u>	<u>65,056</u>	<u>89,533</u>	<u>127,310</u>
<u>EXPENSES</u>				
<u>Financial Expenses</u>				
Interest on:				
Borrowings from Government	9,482	19,634	29,976	40,461
Foreign loans & debentures	6,192	7,256	7,977	19,537
Debentures in domestic currency	8,507	9,382	10,110	11,911
Deposits	5,868	4,968	4,284	5,243
Commission and others	526	405	1,215	639
<u>Total financial expenses</u>	<u>30,535</u>	<u>41,645</u>	<u>53,562</u>	<u>77,791</u>
<u>Administrative and Other Expenses</u>				
Personnel expenses	3,890	5,325	5,079	7,351
Provision for loan loss	799	245	2,725	150
Provision for foreign exchange loss (net)	937	424	2,501	3,322
Other expenses	1,874	2,144	2,971	6,087
<u>Total administrative & other expenses</u>	<u>7,500</u>	<u>8,137</u>	<u>13,276</u>	<u>16,910</u>
<u>Total expenses</u>	<u>38,035</u>	<u>49,782</u>	<u>66,838</u>	<u>94,701</u>
Net income before defense tax	6,356	15,273	22,695	32,609
Defense tax	-	1,152	1,555	2,201
<u>NET INCOME /b</u>	<u>6,356</u>	<u>14,121</u>	<u>21,140</u>	<u>30,408</u>

/a The 1977 income statement is unaudited and is based on a cash rather than accrual basis. It is therefore not fully comparable with the income statements for 1974-76 and understates the income position in 1977.

/b In terms of the provisions of the KDB Act, the entire net income of KDB is transferred to "Legal Reserves." The Government of Korea which is the sole shareholder of KDB does not receive any dividend.

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KOREA DEVELOPMENT BANK

Summarized Audited Balance Sheets, 1974-77/a
(Won million)

	1974	1975	1976	1977 /a
<u>ASSETS</u>				
<u>Current Assets</u>				
Cash and bank deposits	23,717	34,585	48,827	59,202
Securities	7,704	7,017	73,099	49,682
Current portion of loans	50,161	65,804	98,147	128,689
Accrued interest and guarantee fees receivable	18,117	20,561	22,942	...
Current portion of receivables from property disposal	672	2,498	3,184	4,934
Other current assets	4,078	6,037	7,416	22,789
<u>Total current assets</u>	<u>104,449</u>	<u>136,502</u>	<u>253,615</u>	<u>265,296</u>
<u>Long-Term Loans</u>				
Domestic currency loans:				
Operating loans	53,206	62,434	75,402	107,176
Capital loans	340,467	466,403	589,890	795,395
Total domestic currency loans	<u>393,673</u>	<u>528,837</u>	<u>665,292</u>	<u>902,571</u>
(current portion thereof)	(46,689)	(54,050)	(90,821)	(120,139)
Foreign currency loans	32,020	48,983	74,601	105,328
(current portion thereof)	(3,472)	(11,754)	(7,326)	(8,550)
<u>Total loans:</u>	<u>425,693</u>	<u>577,820</u>	<u>739,893</u>	<u>1,007,899</u>
(Less: current portion)	(50,161)	(65,804)	(98,147)	(128,689)
<u>Net loans</u>	<u>375,532</u>	<u>512,016</u>	<u>641,746</u>	<u>879,210</u>
<u>Investments</u>				
Equity shares	65,883	131,595	160,238	217,362
Debentures	10,076	13,524	17,527	23,235
<u>Total investments</u>	<u>75,959</u>	<u>145,119</u>	<u>177,765</u>	<u>240,597</u>
<u>Other assets</u>				
Property and equipment	5,053	5,392	6,305	6,550
Receivables from property disposal	28,724	28,679	26,328	24,672
(Less: current portion)	(672)	(2,498)	(3,184)	(4,934)
Other assets	5,276	5,564	6,428	8,503
<u>Total other assets</u>	<u>38,381</u>	<u>37,137</u>	<u>35,877</u>	<u>34,791</u>
<u>TOTAL ASSETS</u>	<u>594,321</u>	<u>830,774</u>	<u>1,109,003</u>	<u>1,419,894</u>

/a Audited by external auditor except for 1977. 1977 figures are based on a cash rather than on accrual basis and are therefore not fully comparable with the balance sheets for 1974-76. In particular current assets are likely to be understated.

	1974	1975	1976	1977
LIABILITIES AND EQUITY				
<u>Current Liabilities</u>				
Short-term deposits	2,488	25,536	24,038	40,844
Current portion of long-term credit	50,568	53,624	55,272	101,629
Credit control account	4,189	3,739	15,380	36,879
Other current liabilities	7,488	34,224	15,915	19,665
<u>Total current liabilities</u>	<u>64,733</u>	<u>117,123</u>	<u>110,605</u>	<u>199,017</u>
<u>Long-Term Liabilities</u>				
<u>Special Finance Debentures</u>	26,726	26,335	21,312	15,969
Deduct: equivalent cash deposits /a	<u>26,726</u>	<u>26,335</u>	<u>21,312</u>	<u>15,969</u>
Net liability for SFD	-	-	-	-
<u>Time Deposits</u>				
Domestic currency	7,144	115	-	6,900
Foreign currency	34,392	35,163	20,984	11,172
<u>Total time deposits</u>	<u>41,536</u>	<u>35,278</u>	<u>20,984</u>	<u>18,072</u>
<u>Foreign Currency Borrowings</u>				
Official sources	22,829	36,105	66,363	112,435
Commercial sources /b	<u>50,264</u>	<u>47,887</u>	<u>118,729</u>	<u>161,565</u>
	73,093	83,992	185,092	274,000
(Less: current portion)	<u>(4,870)</u>	<u>(3,189)</u>	<u>(16,324)</u>	<u>(22,968)</u>
<u>Net foreign currency borrowings</u>	<u>68,223</u>	<u>80,803</u>	<u>168,768</u>	<u>251,032</u>
<u>Domestic Currency Borrowings</u>				
Government of Korea	136,580	149,074	168,590	202,185
Industrial Rationalization Fund	51,111	51,111	51,111	51,111
Tourism Development Fund	380	380	350	4,760
National Investment Fund	40,680	116,830	207,198	298,280
IFDs in domestic currency	<u>73,426</u>	<u>68,520</u>	<u>57,340</u>	<u>95,301</u>
	302,177	385,915	484,589	651,637
(Less: current portion)	<u>(45,698)</u>	<u>(50,435)</u>	<u>(38,948)</u>	<u>(78,601)</u>
<u>Net domestic currency borrowings</u>	<u>256,479</u>	<u>335,480</u>	<u>445,641</u>	<u>572,976</u>
<u>Provision for Doubtful Loans and Investments</u>	-	-	12,847	...
Other long-term liabilities	5,326	8,363	13,670	13,665
<u>Total long-term liabilities</u>	<u>371,564</u>	<u>459,922</u>	<u>661,910</u>	<u>855,745</u>
<u>Total liabilities</u>	<u>436,297</u>	<u>577,045</u>	<u>772,522</u>	<u>1,054,762</u>
<u>Equity</u>				
Paid in capital	119,712	203,200	274,942	279,942
Reserves and retained earnings	38,312	50,527	61,546	85,190
<u>Total equity</u>	<u>158,024</u>	<u>253,727</u>	<u>336,488</u>	<u>365,132</u>
<u>Outstanding Guarantees</u>				
Domestic currency	64,436	36,723	58,156	71,314
Foreign currency	1,246,906	1,448,289	2,453,537	3,207,530
<u>Total guarantees</u>	<u>1,311,342</u>	<u>1,480,012</u>	<u>2,511,693</u>	<u>3,278,844</u>
Deduct: Customers' liabilities for guarantees	1,311,342	1,480,012	2,511,693	3,278,844
<u>Net liabilities for guarantees</u>	-	-	-	-
<u>TOTAL LIABILITIES AND EQUITIES</u>	<u>594,321</u>	<u>830,774</u>	<u>1,109,003</u>	<u>1,419,894</u>

/a This is a fixed deposit against the outstanding balance of Special Finance Debentures and can only be used for the redemption of these debentures.

/b Including IFDs in foreign currency.

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KOREA DEVELOPMENT BANK

Cash Flow Statements, 1974-77
(Won million)

	1974	1975	1976	1977
Sources of Funds				
Net income	6,356	14,121	21,140	30,408
Noncash charges	1,854	1,655	7,211	1,103
Increase in paid-in capital	9,100	83,488	71,742	5,000
Draw-down on foreign currency borrowings	39,076	12,709	59,668	62,859
Borrowings from:				
Government of Korea	22,769	36,221	23,800	41,209
National Investment Fund	41,566	80,096	92,078	99,759
Industrial Rationalization Fund	21,271	-	-	-
Tourism Development Fund	180	-	-	4,410
Subtotal	87,080	116,317	115,878	145,378
Increase in deposits	-	16,341	-	18,661
Issuance of Industrial Finance Debentures:				
In domestic currency	23,815	17,458	40,000	50,000
In foreign currency	9,124	-	36,081	33,972
Subtotal	32,939	17,458	83,228	83,972
Sale of investments (excl. capital gains)	2,674	3,641	13,013	10,702
Collection of loans	36,447	50,161	65,626	76,696
Sale of property and equipment	207	-	-	1,646
Increase in other liabilities	7,719	9,861	9,511	12,354
Decrease in other assets	-	24,721	2,351	19,951
Total sources	222,158	350,295	442,221	468,730
Uses of Funds				
Increase in property and equipment	-	415	1,040	245
Loan disbursements:				
In domestic currency	125,936	182,354	194,466	304,802
In foreign currency	7,376	17,085	33,233	38,720
Subtotal	133,312	199,439	227,699	343,522
New investment	12,427	74,189	45,660	73,534
Repayments against:				
Domestic currency borrowings	3,399	27,672	5,994	7,614
Foreign currency borrowings	5,912	4,870	11,587	10,567
Subtotal	9,311	32,542	17,581	18,181
Redemption of IFDs:				
In domestic currency	27,643	21,740	44,444	22,873
In foreign currency	-	-	-	-
Subtotal	27,643	21,740	44,444	22,873
Decrease in deposits	10,973	-	15,875	-
Decrease in other liabilities	-	-	6,736	-
Increase in other assets	20,495	11,102	68,944	-
Total uses	214,161	339,427	427,979	458,355
Cash increase (decrease) during the year	7,997	10,868	14,242	10,375
Cash balance at beginning of the year	15,720	23,717	34,585	48,827
Cash balance at end of the year	23,717	34,585	48,827	59,202

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KOREA DEVELOPMENT BANK

Indicators of Financial and Operational Performance, 1974-76 and 1977 (Jan.-Sept.)
(In million won)

	1974	1975	1976	1977
I. <u>Total assets</u>	594,321	830,744	1,109,003	1,419,894
Of which: Loan portfolio <u>/a</u>	424,894	577,575	739,893	1,007,749
Investment portfolio	75,959	145,119	177,765	240,597
Total long-term debts and guarantees	1,698,768	1,926,033	3,041,608	4,134,589
Of which: In foreign currency	73,093	83,992	185,092	274,000
Borrowings from Government	136,580	149,074	168,590	202,185
Debentures in domestic currency	73,416	68,520	57,340	95,301
Special loans and funds	92,171	168,321	258,659	354,151
Deposits	41,536	35,278	20,991	18,072
Outstanding guarantees	1,311,342	1,480,012	2,511,692	3,278,844
Of which: Covered under GRA <u>/b</u>	n.a.	1,148,811	2,072,632	2,538,312
Equity	158,024	243,606	336,488	365,132
II. <u>Financial Performance</u>				
Percentage of Average Total Assets				
1. Gross income	8.4	9.1	9.2	10.1
2. Financial expenses	5.8	5.8	5.5	6.2
3. Gross spread (1-2)	2.6	3.3	3.7	3.9
4. Administrative expenses	1.1	1.0	0.8	1.1
5. Provisions for doubtful loans & foreign exchange losses	0.2	0.0	0.3	0.3
6. Income tax	-	-	-	-
7. Profit before provision	1.4	2.0	2.5	2.5
8. Net profit	1.2	2.0	2.2	2.4
Net Profit as % of				
Average net worth <u>/c</u>	2.8	6.3	7.3	8.3
III. <u>Other Ratios</u>				
1. Provisions and reserves <u>/d</u> as % of total portfolio	8.7	8.2	9.1	-
2. Book value as % of par value	132	120	122	132
3. Debt service cover ratio <u>/e</u> (times)	1.35	1.29	1.43	1.60
4. Interest cover ratio (times)	1.39	1.40	1.47	-
5. Cost of total long-term resources as % of average total long-term resources	5.9	6.1	6.0	6.6
6. Income from loan portfolio as % of average loan portfolio <u>/f</u>	8.9	9.9	10.2	10.3
7. Interest on long-term debt as % of average long-term debt	8.4	8.7	9.0	9.2
8. Spread (6-7)	0.5	1.2	1.2	1.1
9. Long-term debt <u>/g</u> /equity ratio	10.1	3.2	2.9	3.7
10. Total debt <u>/g</u> /equity ratio	-	3.7	3.6	4.9
11. Total debt <u>/h</u> /equity ratio	10.1	7.9	10.0	11.3
12. Current ratio	1.6	1.2	2.0	1.3

/a Net of provisions for doubtful loans./b Guarantee Release Arrangement under which the Government covers the risks of KDB./c Net income after National Defense Tax; KDB is not subject to income/corporate tax./d Including unappropriated profits./e Including proceeds from sale of investments./f Based on a daily average./g Excluding guarantees covered under GRA for 1975, 1976 and 1977 (as of September 30)./h Including guarantees covered under GRA for 1975, 1976 and 1977 (as of September 30).

KOREAKOREA DEVELOPMENT BANKLoan and Guarantee Portfolio in Arrears, 1974-76, and 1977 (as of Sept. 30)
(Won in million)

As of December 31	1974	1975	1976	1977 (as of 9/30)
A. <u>LOAN PORTFOLIO</u>				
<u>Loans outstanding</u>				
Capital loans	372,487	515,386	664,490	774,639
Working capital loans	53,206	62,434	75,403	108,226
<u>Total loans outstanding</u>	<u>425,693</u>	<u>577,820</u>	<u>739,893</u>	<u>882,865</u>
<u>Principal affected by arrears</u> (as % of total principal outstanding)	<u>4,380</u> (1.0)	<u>16,388</u> (2.8)	<u>6,561</u> (0.9)	<u>45,498</u> (5.2)
<u>Arrears</u>				
Principal in arrears	587	661	573	1,138
Interest in arrears	285	427	351	1,009
<u>Total arrears of principal and interest</u> (as % of total loans outstanding)	<u>872</u> (0.2)	<u>1,088</u> (0.2)	<u>924</u> (0.1)	<u>2,147</u> (0.2)
B. <u>GUARANTEE PORTFOLIO</u>				
Total guarantees outstanding	1,311,343	1,480,012	2,511,692	3,153,711
Outstanding guarantees affected by arrears (as % of guarantee portfolio)	16,644 (1.3)	31,465 (2.1)	80 (0.0)	45,747 (1.5)
Principal in arrears	-	2,045	-	1,584
Fees in arrears	58	96	1	32
<u>Total arrears</u> (as % of guarantee portfolio)	<u>58</u> (0.0)	<u>2,141</u> (0.1)	<u>1</u> (0.0)	<u>1,616</u> (0.1)

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Analysis of Loans in Arrears, 1974-76, and 1977 (as of Sept. 30)

As of December 31	1974				1975				1976				1977			
	Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears		Portfolio affected		Amount in arrears	
	No. /a	Amount	Principal	Interest	No. /a	Amount	Principal	Interest	No. /a	Amount	Principal	Interest	No. /a	Amount	Principal	Interest
I. Length of Arrears																
Less than 3 months	69	3,102	548	239	22	13,615	520	342	15	3,188	230	211	41	40,814	710	716
3 - 6 months	29	997	35	42	10	2,041	75	48	15	1,581	52	5	8	974	143	31
6 - 12 months	10	281	4	4	6	595	48	25	3	1,792	291	134	2	2,710	285	262
1 - 2 years	-	-	-	-	6	137	18	12	-	-	-	-	-	-	-	-
More than 2 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	108	4,380	587	285	44	16,388	661	427	33	6,561	573	351	51	45,498	1,138	1,009
II. Sector																
Government sector	-	-	-	-	1	19	1	10	-	-	-	-	-	-	-	-
Private sector	108	4,380	587	285	43	16,369	660	417	33	6,561	573	351	51	45,498	1,138	1,009
Total	108	4,380	587	285	44	16,388	661	427	33	6,561	573	351	51	45,498	1,138	1,009
III. Type of Industry																
A. Manufacturing Industries																
Food, beverage & tobacco	5	1,236	396	16	2	2,878	16	73	-	-	-	-	2	3,145	12	74
Textile, wearing apparel & leather	5	86	6	37	3	495	77	52	1	45	7	2	5	12,493	254	305
Wood, wood products and furniture	1	235	67	-	-	-	-	-	1	1,745	285	133	1	2,259	285	211
Paper & paper products	3	-	20	-	-	-	-	-	-	-	-	-	-	-	-	-
Printing & publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chemical, rubber & plastic	2	288	14	5	1	397	15	23	-	-	-	-	3	4,067	46	18
Petroleum & coal	-	-	-	-	1	79	21	10	2	571	63	21	1	785	35	14
Nonmetallic mineral products	-	-	-	-	3	907	118	3	-	-	-	-	3	4,895	183	134
Basic metals	-	-	-	-	4	1,870	46	64	-	-	-	-	4	2,923	79	82
Fabricated metal products, machinery (excluding electrical)	20	1,003	37	167	3	930	66	34	1	239	-	13	3	2,595	22	22
Electrical equipment	-	-	-	-	-	-	-	-	-	-	-	-	2	813	45	15
Transport equipment	-	-	-	-	4	1,442	-	30	2	840	15	66	2	5,132	24	15
Others	3	469	4	2	1	4,566	195	73	-	-	-	-	-	-	-	-
Subtotal manufacturing	39	3,317	544	227	22	13,464	554	362	7	3,440	370	325	26	39,107	985	883
B. Nonmanufacturing Industries																
Agriculture, forestry and fishery	4	67	9	6	1	268	9	5	1	240	18	1	2	4,116	9	46
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, gas & waterworks	3	75	-	3	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	1	1,045	116	68	-	-	-	-
Transportation	56	696	30	23	16	684	16	17	19	468	20	18	15	437	28	15
Financing & insurance	9	9	-	4	-	-	-	-	2	190	7	5	-	-	-	-
Hotel & tourism	5	216	4	22	4	1,843	81	33	3	1,178	42	24	8	1,838	116	65
Others	-	-	-	-	1	329	1	10	-	-	-	-	-	-	-	-
Subtotal nonmanufacturing	69	1,063	43	58	22	2,924	107	65	26	3,121	203	116	25	6,391	153	126
Grand total	108	4,380	587	285	44	16,388	661	427	33	6,561	573	351	51	45,498	1,138	1,009

/a Number of companies.

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Collection Performance, 1973-76, and 1977 (Jan-Sept)
(In Won million)

	Amounts falling due during the period (including past due)	Amounts collected during the period	Collection rate /a
<u>1973</u>			
Principal	25,845	24,107	93.2
Interest	22,117	21,189	95.5
<u>Total</u>	<u>48,022</u>	<u>45,296</u>	<u>94.3</u>
<u>1974</u>			
Principal	38,656	36,447	94.3
Interest	31,128	29,377	94.4
<u>Total</u>	<u>69,784</u>	<u>65,824</u>	<u>94.3</u>
<u>1975</u>			
Principal	54,261	50,161	92.4
Interest	48,833	47,929	98.1
<u>Total</u>	<u>103,094</u>	<u>98,090</u>	<u>95.1</u>
<u>1976</u>			
Principal	65,019	63,907	98.3
Interest	64,501	63,787	98.9
<u>Total</u>	<u>129,520</u>	<u>127,694</u>	<u>98.6</u>
<u>1977 (Jan-Sept)</u>			
Principal	50,006	48,868	97.7
Interest	65,489	64,217	98.1
<u>Total</u>	<u>115,495</u>	<u>113,085</u>	<u>97.9</u>

/a Column 2 as percent of column 1.

AEF Projects Department
May 1, 1978

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Resource Position as of December 31, 1977
(In Won million)

A. Domestic Currency Resources	
1. <u>Long-Term Resources</u>	
(a) Raised in domestic currency:	
Equity	
Paid in capital	279,942
Reserves and retained earnings	85,190
Subtotal	<u>365,132</u>
Borrowings (net of repayments)	
Government	202,185
Industrial Rationalization Fund	51,111
National Investment Fund	298,280
Tourism Development Fund	4,760
Subtotal	<u>556,336</u>
Debentures	79,514
Revolving funds	6,112
Time deposits, more than one year	6,900
Subtotal	<u>92,526</u>
(b) Raised in foreign currency /a:	
Debentures, commercial borrowings and time deposits	160,136
Total long-term resources in domestic currency	<u>1,174,130</u>
Less:	
Term loans outstanding in domestic currency	850,820
Investments outstanding	240,597
Receivables from property disposed	24,672
Fixed assets	6,550
Resources available for disbursement	51,491
Less: Undisbursed commitments	<u>3,799</u>
Resources available for commitment	<u>47,692</u>
2. <u>Short-Term Resources</u>	
Short-term deposits	40,844
Others	<u>29,667</u>
Total short-term resources	<u>70,511</u>
Less:	
Operating loans (less than twelve months)	<u>51,750</u>
Short-term resources available for disbursement and commitments	<u>18,761</u>
B. Foreign Currency Resources	
Borrowings from official sources (net of repayments):	
IBRD	73,749
AID	6,937
ADB	50,675
KfW	9,136
Borrowings from commercial sources and time deposits /b	<u>12,508</u>
Total foreign currency resources	<u>153,005</u>
Less: Foreign currency loans outstanding	<u>105,328</u>
Requirements against foreign deposits received	3,716
Foreign currency resources available for disbursement	<u>43,961</u>
Less: Undisbursed commitments	<u>30,182</u>
Foreign currency resources available for commitment	<u>13,779</u>
Less: Uncommitted approval	-
Foreign currency available for approval	<u>13,779</u>

/a All these resources, which were raised in foreign currency, have been or are intended to be used in domestic currency operations.

/b Only that portion which is intended to be used for foreign currency lending operation.

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Terms and Conditions of Long-Term Borrowings as of December 31, 1977

Source of Funds	Amount /a		Borrowing rate (%)	Onlend- ing rate (%)	Maximum duration for KDB (years)	Maximum duration for subborrower (years)	Limit on subloan (in \$'000)	Free limit (in \$'000)	Procurement tied or not	KDB repayment schedule	Date of Loan Agreement
	Won in billion	US\$ in million									
I. Foreign currency											
USAID											
2nd loan	3.1	6.3	5	8	15	15	US\$1,000	US\$300	Tied	1977-1983	Nov. 19, 1966
3rd loan	3.8	7.9	6	10	15	15	US\$1,000	US\$300	Tied	1977-1985	June 26, 1968
Subtotal	6.9	14.2									
KFW											
1st loan	2.2	4.5	5	8	20	10	DM 800	DM 500	Not	1977-1985	Jan. 24, 1966
2nd loan	0.6	1.3	8	10	10	10	DM 200	DM 500	Not	1977-1980	Oct. 14, 1970
3rd loan	2.1	4.4	7	9	30	15	DM 1,000	DM 500	Not	1984-2003	Nov. 12, 1973
4th loan	4.3	8.8	7	9	30	15	DM 4,000	DM 500	Not	1986-2005	Aug. 04, 1976
Subtotal	9.2	19.0									
ADB											
1st loan	3.1	6.4	7.5	10	15	15	US\$1,000	US\$200	Not	1977-1985	Nov. 23, 1970
2nd loan	7.0	14.6	7.5	9.5	15	15	US\$1,000	US\$200	Not	1977-1986	Dec. 15, 1972
3rd loan	12.7	26.1	7.5-8.75	9.5-10.75	15	15	US\$2,000	US\$500	Not	1977-1987	Nov. 20, 1974
4th loan	8.5	17.5	8.75	10.5	15	15	-	-	Not	1979-1989	May 30, 1975
5th loan	19.4	40.0	8.75	10.75	15	15	US\$3,000	US\$750	Not	1979-1990	Dec. 12, 1975
Subtotal	50.7	104.6									
IBRD											
1st loan	28.1	58.2	8.5	10.5	18	18	US\$4,000	US\$750	Not	1977-1990	Mar. 31, 1975
2nd loan	39.9	82.2	8.7	10.7	17	17	US\$5,000	US\$1,500	Not	1977-1993	Dec. 23, 1976
KFCO	5.7	11.7	5.83	7.5	25	35	-	-	Not	1983-2001	Mar. 19, 1976
Subtotal	73.7	152.1									
Commercial banks											
2nd loan	33.6	69.3	LIBOR + 1%	Floating rate 10.6-12.0	10	-	-	-	Not	1977-1984	Jan. 24, 1974
3rd loan	38.8	80.0	LIBOR + 1.875%	"	5	-	-	-	Not	1978-1981	Jun. 25, 1976
Japanese banks	8.8	18.1	9.9% fixed	"	7	-	-	-	Not	1979-1983	Jul. 21, 1976
Subtotal	81.2	167.4									
IFDs											
1st issue	9.3	19.2	8.5	Floating rate 10.6-12.0	15	-	-	-	Not	1980-1989	Oct. 10, 1974
2nd issue	7.5	15.5	9.5	"	5	-	-	-	Not	1981	Apr. 20, 1976
3rd issue	4.8	10.0	9.25	"	3	-	-	-	Not	1979	Jul. 15, 1976
4th issue	12.0	24.8	8.75	"	3	-	-	-	Not	1979	Oct. 16, 1976
5th issue	12.1	25.0	9.5	"	5	-	-	-	Not	1981	Dec. 08, 1976
6th issue	12.1	25.0	9.5	"	5	-	-	-	Not	1982	Feb. 15, 1977
7th issue	22.6	46.7	7.25	"	7	-	-	-	Not	1984	Nov. 25, 1977
Subtotal	80.4	166.2									
Total foreign currency	302.1	623.5									
II. Domestic currency											
Government of Korea											
Economic Development Fund											
Counterpart funds	188.14	387.9	6-15	6-17	20-35	1-20	-	-	-	1977-2012	
	14.04	28.9	2-5	2-5	8-40	1-20	-	-	-	1977-2007	
Subtotal	202.18	416.8									
IFDs											
IRF	94.0	196.5	13.2-14.1	13-19	2-3	1-20	-	-	-	1977-1979	
TDF	51.1	105.4	2-5	13-14	15-40	1-20	-	-	-	1978-2012	
NIF	4.8	9.9	1-6	1.5-7.5	8	8	-	-	-	1983-1984	
	298.3	615.1	8.0-13.5	9-14	3-8	3-9	-	-	-	1977-1984	
Time deposits /b											
Domestic	6.9	14.2	14.4	13-19	1-2.5	-	-	-	-	1978-1979	
Foreign	11.0	23.1	7.5	10.6	4-6	-	-	-	-	1977-1979	
Subtotal	17.9	37.3									
Total domestic currency	669.58	1,381.0									
Total resources	971.68	2,004.5									

/a Net of repayment on the basis of contracted amounts.

/b Included is the amount maturing one year or over.

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Forecast of Approvals, Commitments and Disbursements, 1978-82
(In million won)

Year ending December 31	1977	1978	1979	1980	1981	1982
<u>Approvals</u>						
<u>Capital loans</u>	275,203	400,446	409,005	468,324	527,643	586,963
Foreign currency	(33,650)	(48,400)	(53,170)	(65,565)	(79,146)	(93,914)
Domestic currency	(241,553)	(352,046)	(355,835)	(402,759)	(448,497)	(493,049)
Working capital loan in domestic currency	55,610	24,500	81,800	93,664	105,528	117,392
Investments in domestic currency	81,161	36,073	54,533	62,443	70,352	78,261
<u>Total approvals</u>	<u>410,974</u>	<u>461,019</u>	<u>545,338</u>	<u>624,431</u>	<u>703,523</u>	<u>782,616</u>
<u>Commitments</u>						
<u>Domestic currency</u>						
92% of current year's capital loan approvals	222,229	323,882	327,368	370,538	412,617	453,605
8% of previous year's capital loan approvals	-	19,324	28,164	28,467	32,221	35,880
100% of current year's working capital loan approvals	55,610	24,500	81,800	93,664	105,528	117,392
96% of current year's investment approvals	76,955	34,630	52,352	59,945	67,538	75,131
4% of previous year's investment approvals	-	3,206	1,443	2,181	2,498	2,814
<u>Total commitments of domestic currency approvals</u>	<u>354,794</u>	<u>405,542</u>	<u>491,127</u>	<u>554,795</u>	<u>620,402</u>	<u>684,822</u>
<u>Foreign currency</u>						
96% of current year's loan approvals	32,304	46,464	51,043	62,942	75,980	90,157
4% of previous year's loan approvals	-	1,346	1,936	2,127	2,623	3,166
<u>Total commitments of foreign currency approvals</u>	<u>32,304</u>	<u>47,810</u>	<u>52,979</u>	<u>65,069</u>	<u>78,603</u>	<u>93,323</u>
<u>Total commitments</u>	<u>387,098</u>	<u>453,352</u>	<u>544,106</u>	<u>619,864</u>	<u>699,005</u>	<u>778,145</u>
<u>Disbursements</u>						
<u>Domestic currency</u>						
100% of current year's capital loan commitments	222,229	343,206	355,532	399,005	444,838	489,485
100% of current year's working loan commitments	55,610	24,500	81,800	93,664	105,528	117,392
100% of current year's investment commitments	76,955	37,836	53,795	62,126	70,036	77,945
<u>Total disbursements in domestic currency</u>	<u>354,794</u>	<u>405,542</u>	<u>491,127</u>	<u>554,795</u>	<u>620,402</u>	<u>684,822</u>
<u>Foreign currency</u>						
50% of current year's commitment	16,152	23,232	25,522	31,471	37,990	45,079
50% of previous year's commitment	-	16,152	23,232	25,521	31,471	37,990
<u>Total disbursements in foreign currency</u>	<u>16,152</u>	<u>39,384</u>	<u>48,754</u>	<u>56,992</u>	<u>69,461</u>	<u>83,069</u>
<u>Total disbursements</u>	<u>370,946</u>	<u>444,926</u>	<u>539,881</u>	<u>611,787</u>	<u>689,863</u>	<u>767,891</u>

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Projected Income Statements, 1978-82
(In million won)

Year ending December 31	1977/a	1978	1979	1980	1981	1982
Income						
<u>Interest income</u>						
Interest on loans	86,181	121,175	153,385	189,094	227,448	267,952
Interest on bonds and debentures	5,881	2,368	2,530	2,793	3,105	3,456
Interest on deposits	4,388	5,000	5,500	6,000	6,500	7,000
<u>Total interest income</u>	<u>96,450</u>	<u>128,543</u>	<u>161,415</u>	<u>197,887</u>	<u>237,053</u>	<u>278,408</u>
<u>Other income</u>						
Dividend income	6,398	8,941	10,908	13,516	16,652	20,345
Guarantee commissions	12,999	16,781	17,945	18,860	19,175	19,436
Capital gains on sale of investment	6,054	1,974	2,448	2,878	3,322	3,800
Other income	5,409	6,000	6,500	7,000	7,500	8,000
<u>Total other income</u>	<u>30,860</u>	<u>33,696</u>	<u>37,801</u>	<u>42,254</u>	<u>46,649</u>	<u>51,581</u>
<u>Total income</u>	<u>127,310</u>	<u>162,239</u>	<u>199,216</u>	<u>240,141</u>	<u>283,702</u>	<u>329,989</u>
Expenses						
<u>Financial expenses</u>						
Interest on:						
Borrowings from Government	40,461	60,311	76,260	95,146	117,400	143,883
Foreign loans and debentures	19,537	24,248	28,255	32,021	36,057	40,367
Debentures in domestic currency	11,911	15,404	189,968	20,972	22,592	23,507
Deposits	5,243	1,549	1,140	840	690	690
Commission and others	639	1,300	1,400	1,500	1,600	1,700
<u>Total financial expenses</u>	<u>77,791</u>	<u>102,812</u>	<u>126,023</u>	<u>150,479</u>	<u>178,339</u>	<u>210,147</u>
<u>Administrative and other expenses</u>						
Personnel expenses	7,351	9,556	12,423	16,150	20,995	27,293
Provision for loan loss	150	201	264	330	398	476
Provision for foreign exchange loss (net)	3,322	2,126	2,438	2,557	2,736	2,858
Other expenses	6,087	4,278	5,134	6,160	7,393	8,871
<u>Total administrative and other expenses</u>	<u>16,910</u>	<u>16,161</u>	<u>20,259</u>	<u>25,197</u>	<u>31,522</u>	<u>39,498</u>
<u>Total expenses</u>	<u>94,701</u>	<u>118,973</u>	<u>146,282</u>	<u>195,676</u>	<u>209,861</u>	<u>249,645</u>
Net income before defense tax	32,609	43,266	52,934	64,465	73,841	80,344
Defense tax	2,201	2,920	3,573	4,351	4,984	5,423
<u>Net income</u>	<u>30,408</u>	<u>49,346</u>	<u>49,361</u>	<u>60,114</u>	<u>68,857</u>	<u>74,921</u>

/a Not audited.

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Projected Balance Sheets, 1978-82
(In million won)

Year ending December 31	1977/a	1978	1979	1980	1981	1982
Assets						
<u>Current assets</u>						
Cash and bank deposits	59,202	64,491	65,717	81,281	102,298	131,063
Securities	49,682	50,000	50,000	60,000	70,000	80,000
Current portion of loans	128,689	159,294	194,165	238,827	291,674	337,178
Accrued interest and guarantee fee receivable	-	18,675	23,772	29,174	34,989	37,654
Current portion of receivables from property disposal	4,934	6,121	7,194	8,306	9,500	10,800
Other current assets	22,789	10,000	10,000	10,000	10,000	10,000
<u>Total current assets</u>	<u>265,296</u>	<u>308,581</u>	<u>350,848</u>	<u>427,588</u>	<u>518,461</u>	<u>606,695</u>
<u>Long-term loans</u>						
<u>Domestic currency loans</u>						
Operating loans	107,176	119,925	141,635	163,553	182,549	196,103
Capital loans	795,395	1,070,213	1,340,246	1,633,793	1,949,601	2,280,379
<u>Total domestic currency loans</u>	<u>902,571</u>	<u>1,190,138</u>	<u>1,481,881</u>	<u>1,797,346</u>	<u>2,132,150</u>	<u>2,476,482</u>
(Current portion thereof)	(120,139)	(145,589)	(177,204)	(215,562)	(262,545)	(301,431)
<u>Foreign currency loans</u>	<u>105,328</u>	<u>136,172</u>	<u>171,229</u>	<u>201,260</u>	<u>257,456</u>	<u>311,396</u>
(Current portion thereof)	(8,550)	(13,705)	(16,961)	(23,265)	(29,129)	(35,747)
<u>Total loans</u>	<u>1,007,899</u>	<u>1,326,310</u>	<u>1,653,110</u>	<u>1,998,606</u>	<u>2,389,606</u>	<u>2,787,878</u>
(Less: Current portion)	(128,689)	(159,294)	(194,165)	(238,827)	(291,674)	(337,178)
<u>Net loans</u>	<u>879,210</u>	<u>1,167,016</u>	<u>1,458,945</u>	<u>1,759,779</u>	<u>2,097,932</u>	<u>2,450,700</u>
<u>Investments</u>						
Equity shares	217,362	229,678	255,126	285,527	320,007	358,158
Debentures	23,235	24,114	26,479	29,381	32,711	36,416
<u>Total investments</u>	<u>240,597</u>	<u>253,792</u>	<u>281,605</u>	<u>314,908</u>	<u>352,718</u>	<u>394,574</u>
<u>Other assets</u>						
Property and equipment	6,550	7,485	8,655	10,068	11,718	13,598
Receivables from property disposal	24,672	30,606	35,968	41,531	47,502	54,002
(Less: Current portion)	(4,934)	(6,121)	(7,194)	(8,306)	(9,500)	(10,800)
Net receivables from property disposal	19,738	24,485	28,774	33,225	38,002	43,202
Other assets	8,503	9,000	9,500	10,000	10,500	11,000
<u>Total other assets</u>	<u>34,791</u>	<u>40,970</u>	<u>46,929</u>	<u>53,293</u>	<u>60,220</u>	<u>67,800</u>
<u>Total assets</u>	<u>1,419,894</u>	<u>1,770,359</u>	<u>2,138,327</u>	<u>2,555,568</u>	<u>3,029,331</u>	<u>3,519,769</u>

Year ending December 31	1977/a	1978	1979	1980	1981	1982
Liabilities and Equity						
Current liabilities						
Short-term deposits	40,844	45,000	50,000	55,000	60,000	65,000
Current portion of long-term debt	101,629	124,467	152,768	181,083	210,897	226,240
Credit control account	36,879	34,320	35,553	39,900	44,484	48,948
Refinance	-	-	-	-	-	-
Other current liabilities	19,665	-	-	-	-	-
Total current liabilities	199,017	223,787	263,321	305,938	350,381	380,188
Long-term liabilities						
Special finance debentures	15,969	10,845	6,238	1,630	-	-
(Deduct: Equivalent cash deposits)	(15,969)	(10,845)	(6,238)	(1,630)	(-)	(-)
Time deposits						
Domestic currency	6,900	6,900	6,900	6,900	6,900	6,900
Foreign currency	11,172	6,000	3,000	-	-	-
Total time deposits	18,072	12,900	9,900	6,900	6,900	6,900
Foreign currency borrowings						
Official sources	112,435	145,086	182,782	220,807	275,880	334,347
Commercial sources	161,565	193,740	208,138	228,914	244,540	272,959
Total foreign currency borrowings	274,000	338,826	390,920	449,721	520,420	607,306
(Less: Current portion)	(22,968)	(28,384)	(32,395)	(31,894)	(31,575)	(30,956)
Net foreign currency borrowings	251,032	310,442	358,525	417,827	488,845	576,350
Domestic currency borrowings						
Government of Korea	202,185	278,748	371,199	477,779	601,675	751,396
Industrial Rationalization Fund	51,111	50,077	47,606	44,717	41,339	37,390
Tourism Development Fund	4,760	9,432	14,202	18,766	23,720	27,374
NIF	298,280	370,678	457,102	560,637	683,973	832,163
IFDs in domestic currency	95,301	132,901	156,101	170,601	180,101	184,151
Total domestic currency borrowings	651,637	841,836	1,046,210	1,272,500	1,530,808	1,832,474
(Less: Current portion)	(78,661)	(96,083)	(120,373)	(149,189)	(179,322)	(195,284)
Net domestic currency borrowings	572,976	745,753	925,837	1,123,311	1,351,486	1,637,190
Provision for foreign exchange loss on						
Industrial Rationalization Fund	6,511	7,999	9,705	11,494	13,409	15,410
Other liabilities	7,154	6,500	7,000	7,500	8,000	8,500
Total long-term liabilities (net of current portion)	855,745	1,083,594	1,310,967	1,567,032	1,868,640	2,244,350
Total liabilities	1,054,762	1,307,381	1,574,288	1,873,015	2,219,021	2,624,538
Equity						
Paid-in capital	279,942	337,442	389,142	447,542	506,442	516,442
Reserves and retained earnings	85,190	125,536	174,897	235,011	303,868	378,789
Total equity	365,132	462,978	564,039	682,553	810,310	895,231
Outstanding guarantees						
Domestic currency	71,314	71,609	72,890	76,075	80,903	87,130
Foreign currency	3,207,530	3,512,947	3,568,744	3,624,283	3,647,617	3,671,409
Total guarantees	3,278,844	3,584,556	3,641,634	3,700,358	3,728,520	3,758,539
(Deduct: Customers' liabilities for guarantees)	(3,278,844)	(3,584,556)	(3,641,634)	(3,700,358)	(3,728,520)	(3,758,539)
Net liabilities for guarantees	-	-	-	-	-	-
Total liabilities and equities	1,419,894	1,770,359	2,138,327	2,555,568	3,029,331	3,519,769

/a Not audited.

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KOREA DEVELOPMENT BANK

Projected Cash Flow Statement, 1978-82
(In million won)

Year ending December 31	1978	1979	1980	1981	1982
<u>Sources of Funds</u>					
Net income	40,346	49,361	60,114	68,857	74,921
Noncash charges	65	80	87	100	120
Increase in capital	57,500	51,700	58,400	58,900	10,000
Drawdown on foreign currency borrowings	63,584	72,954	76,192	98,661	107,269
(Public loans)	(39,384)	(48,754)	(51,992)	(74,461)	(83,069)
(Foreign commercial bank loans)	(24,200)	(24,200)	(24,200)	(24,200)	(24,200)
Increase in domestic currency borrowings	231,260	277,257	332,163	397,997	476,938
(Government)	(83,010)	(99,612)	(119,534)	(143,441)	(172,129)
(National Investment Fund)	(143,500)	(172,200)	(206,640)	(247,968)	(297,562)
(Tourism Development Fund)	(4,750)	(5,445)	(5,989)	(6,588)	(7,247)
Issuance of IFD	94,200	94,200	94,200	94,200	94,200
(Domestic currency)	(70,000)	(70,000)	(70,000)	(70,000)	(70,000)
(Foreign currency)	(24,200)	(24,000)	(24,200)	(24,200)	(24,200)
Increase in deposits	4,156	5,000	5,000	5,000	5,000
Decrease in investments	24,641	25,982	28,823	32,226	36,089
Increase in current liabilities	335	10,233	9,347	9,584	9,464
Collections against:	128,679	159,286	199,165	233,827	291,674
(Domestic currency operating loans)	(51,751)	(60,090)	(71,746)	(86,532)	(103,838)
(Domestic currency capital loans)	(68,388)	(85,499)	(105,458)	(129,030)	(158,707)
(Foreign currency loans)	(8,540)	(13,697)	(21,961)	(18,265)	(29,129)
Increase in other liabilities	1,488	6,206	2,289	2,415	2,501
<u>Total sources</u>	<u>656,254</u>	<u>752,259</u>	<u>865,780</u>	<u>1,001,767</u>	<u>1,108,176</u>
<u>Uses of Funds</u>					
Increase in property and equipment	1,000	1,250	1,500	1,750	2,000
Disbursements of loans	447,090	486,086	544,661	624,827	689,946
(Domestic currency operating loans)	(64,500)	(81,800)	(93,664)	(105,528)	(117,392)
(Domestic currency capital loans)	(343,206)	(355,532)	(399,005)	(444,838)	(489,485)
(Foreign currency loans)	(39,384)	(48,754)	(51,992)	(74,461)	(83,069)
New investments	37,836	53,795	62,126	70,036	77,945
(Equity investments)	(34,053)	(48,416)	(55,914)	(63,033)	(70,151)
(Bonds and debentures)	(3,783)	(5,379)	(6,212)	(7,003)	(7,794)
Repayments:	78,661	96,083	120,373	149,189	179,322
Against domestic currency borrowings from					
(Government)	(6,447)	(7,161)	(12,954)	(19,545)	(12,408)
(National Investment Fund)	(71,102)	(85,776)	(103,105)	(124,632)	(149,372)
(Industrial Rationalization Fund)	(1,034)	(2,471)	(2,889)	(3,378)	(3,949)
(Tourism Development Fund)	(78)	(675)	(1,425)	(1,634)	(3,593)
Against foreign currency borrowings from	22,958	28,384	32,395	31,894	31,575
(Public loans)	(6,733)	(11,058)	(13,967)	(19,388)	(24,602)
(Foreign bank loans)	(16,225)	(17,326)	(18,428)	(12,506)	(6,973)
Redemption of IFD	32,400	63,476	64,696	80,768	78,958
(Domestic currency)	(32,400)	(46,800)	(55,500)	(60,500)	(65,950)
(Foreign currency)	-	(16,676)	(9,196)	(20,268)	(13,008)
Decrease in deposits	5,172	3,000	3,000	-	-
Increase in other assets	6,701	5,597	15,902	16,315	13,165
Increase in receivables from property disposal	5,934	5,362	5,563	5,971	6,500
Decrease in other liabilities	13,213	-	-	-	-
<u>Total uses</u>	<u>650,965</u>	<u>751,033</u>	<u>850,216</u>	<u>980,750</u>	<u>1,079,411</u>
Increase of cash	5,289	1,226	15,564	21,017	28,765
Cash balance at the beginning of the year	59,202	64,491	65,717	81,281	102,298
Cash balance at the end of the year	64,491	65,717	81,281	102,298	131,063

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KOREA DEVELOPMENT BANK

Projected Indicators of Financial and Operational Performance, 1978-82
(Won in million)

	1978	1979	1980	1981	1982
I. Financial Data					
Total assets	1,770,359	2,138,327	2,555,568	3,029,331	3,519,769
Of which: Loan portfolio	1,326,310	1,653,110	1,998,606	2,389,606	2,787,878
Investment portfolio	253,792	281,605	314,908	352,718	394,574
Total long-term debts and guarantees	4,765,218	5,078,764	5,422,579	5,779,748	6,198,319
Of which: In foreign currency	338,826	390,920	449,721	520,420	607,306
Borrowing from Government	278,748	371,199	477,779	601,675	751,396
Debentures in domestic currency	132,901	156,101	170,601	180,101	184,151
Special loans and funds	430,187	518,910	624,120	749,032	896,927
Deposits	12,900	9,900	6,900	6,900	6,900
Outstanding guarantees	3,584,556	3,641,634	3,700,358	3,728,520	3,758,539
Of which: Covered under GRA /a	3,046,873	3,095,389	3,145,304	3,169,242	3,194,758
Equity	462,978	564,039	682,553	810,310	895,231
II. Financial Performance					
Percentage of average total assets					
1. Gross income	10.2	10.2	10.2	10.2	10.1
2. Financial expenses	6.4	6.4	6.4	6.4	6.4
3. Gross spread (1-2)	3.8	3.8	3.8	3.8	3.7
4. Administrative expenses	0.9	0.9	1.0	1.0	1.1
5. Provisions for doubtful loans	0.2	0.1	0.1	0.1	0.1
6. Income tax	-	-	-	-	-
7. Profit before provision	2.7	2.7	2.7	2.6	2.4
8. Net profit	2.5	2.5	2.6	2.5	2.3
Net profit /b as % of average net worth	9.7	9.6	9.6	9.0	8.8
III. Other Ratios					
1. Provisions and reserves /c as % of total loan portfolio	10.4	11.4	12.4	13.4	14.0
2. Book value as % of par value	137	145	153	160	173
3. Debt service cover ratio /d (times)	1.5	1.5	1.5	1.5	1.5
4. Interest cover ratio (times)	1.4	1.4	1.4	1.4	1.4
5. Cost of total long-term resources as % of average total long-term resources	7.8	6.9	6.8	6.7	6.8
6. Income from loan portfolio as % of average loan portfolio	10.4	10.3	10.4	10.4	10.4
7. Interest on long-term debt as % of long-term debt	7.9	8.7	8.7	8.7	8.7
8. Spread (6-7)	2.5	1.6	1.7	1.7	1.7
9. Long-term debt/equity ratio	4.0	3.8	3.5	3.4	3.5
10. Total debt /e/equity ratio	4.2	3.9	3.7	3.5	3.7
11. Total debt /f/equity ratio	10.8	9.4	8.3	7.4	7.2
12. Current ratio	1.4	1.3	1.4	1.5	1.6

/a Guarantee Release Arrangement under which the Government covers the risk of KDB.

/b Net income after National Defense Tax; KDB is not subject to income/corporate tax.

/c Including unappropriated profits.

/d Excluding proceeds from sale of investments.

/e Excluding guarantees covered under GRA.

/f Including guarantees covered under GRA.

KOREAKOREA DEVELOPMENT BANKEstimated Commitments and Disbursements of IBRD\$110 Million Loan /a
(In US\$ million)

	<u>Commitments</u>		<u>Disbursements</u>	
	<u>Amount</u>	<u>% /b</u>	<u>Amount</u>	<u>% /b</u>
<u>1978</u>				
4th quarter	13	11.8	2	1.8
<u>1979</u>				
1st quarter	16	26.3	2	3.6
2nd quarter	17	41.8	9	11.8
3rd quarter	20	60.0	11	21.8
4th quarter	16	74.5	14	34.5
End 1979	<u>69</u>		<u>36</u>	
<u>1980</u>				
1st quarter	12	85.4	18	50.9
2nd quarter	9	93.6	18	67.3
3rd quarter	5	98.1	14	80.0
4th quarter	2	100.0	11	90.0
End 1980	<u>28</u>		<u>61</u>	
<u>1981</u>				
1st quarter	-	-	6	95.4
2nd quarter	-	-	3	98.2
3rd quarter	-	-	1.5	99.5
4th quarter	-	-	0.5	100.0
End 1981	<u>-</u>		<u>11</u>	

/a Assuming that the proposed loan becomes effective in the third quarter of 1978.

/b Percentages are cumulative.

AEP Projects Department
May 1, 1978

KOREAKOREA DEVELOPMENT BANKRelated Documents and Data Available in the Project FileA. General Reports and Studies on the Sector or Subsector

- A.1 Survey of Equipment Investment Plan of Principal Enterprises. Korea Development Bank, December 1977.
- A.2 Industry in Korea. Korea Development Bank, 1976.
- A.3 Monthly Economic Statistics. Bank of Korea, March 1978.
- A.4 Stock. Korea Stock Exchange, March 1978.
- A.5 The Fourth Five-Year Development Plan. The Government of the Republic of Korea, 1976.
- A.6 Manufacturing and Mining Survey, 1975; EPB.
- A.7 Other sector reports are kept in the MIB Project File. Please see report entitled Staff Appraisal Report of the Medium Industry Bank, November 30, 1977, Annex 23.

B. General Reports and Studies Relating to the Project

- B.1 Basic Laws and Regulations of the Korea Development Bank. The Korea Development Bank, 1977.
- B.2 Korea Development Bank. Annual Reports 1974-76.
- B.3 Korea Development Bank. Audited Financial Statements 1974-76.
- B.4 The Korea Development Bank. Functions and Activities, 1977.

C. Selected Working Papers

- C.1 Analysis of Foreign Exchange Component of Domestically Manufactured Machinery.
- C.2 Data on Procurement by Countries of Origin.
- C.3 List of Subprojects Approved or under Consideration for Financing under Loan 1095-KO.
- C.4 List of Subprojects Approved or under Consideration for Financing under Loan 1338-KO.

- C.5 Summary of Economic Indicators of a Sample of 47 KDB-Financed Projects.
- C.6 Loans of KDB transferred to Readjustment Corporation, 1973-76 and 1977 (Jan.-Sept.).
- C.7 Summarized Accounts of the Readjustment Corporation for the Years Ended December 31, 1974-76 and for 1977 (Jan.-Sept.).

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KOREA DEVELOPMENT BANK
ORGANIZATION CHART, SEPTEMBER 30, 1977

